HEALTH AND HUMAN SERVICES

Health and human services programs provide medical, dental, mental health, and social services to California's most needy citizens. For the 2004-05 fiscal year, expenditures for all Health and Human Services Agency budgets total $64.8 billion in combined State and federal funds. This includes expenditures for approximately 31,384 State employees. Figure HHS-1 displays expenditures for each major program area, and Figure HHS-2 displays program caseloads.

Overview

The Health and Human Services Agency (HHSA) oversees an array of departments and boards that provide essential services to many of California's most vulnerable and at-risk residents. Services provided through programs such as Medi-Cal, CalWORKs, and the regional centers touch the lives of millions of Californians and provide access to critical services that promote their health, well being, and ability to function in society.

Notwithstanding the value and import of HHSA services provided to state residents, many of its major programs represent significant contributors to the overall growth in State expenditures. The State's fiscal challenges compel the Administration to bring overdue focus on and attention to structural reforms of HHSA's major entitlement programs.

The 2004-05 Governor's Budget proposes to restructure and reform a number of HHSA programs, including Medi-Cal and CalWORKs, and services provided to the developmentally disabled. To inform development of reform proposals, the Administration utilized a number of key principles:

- Maintain essential services to those most in need.
- Recognize children as a priority investment.
- Promote personal responsibility.
- Promote work participation.
- Enhance program effectiveness and accountability.

These reform proposals strike a responsible and reasonable balance between the twin imperatives of maintaining essential services to our state's most vulnerable and at-risk residents, while implementing strategies to better manage and control program costs over the long term.

Department of Health Services

The mission of the Department of Health Services (DHS) is to protect and improve the health of Californians. To accomplish this, the Department administers a broad range of public health programs and the California Medical Assistance Program for low-income individuals and families—Medi-Cal. In 2004-05, DHS' budget totals approximately $34.3 billion ($12.2 billion General Fund) and 5,505.1 personnel years. Funding for 2004-05 reflects a General Fund increase of approximately $991.9 million compared to the 2003 Budget Act.

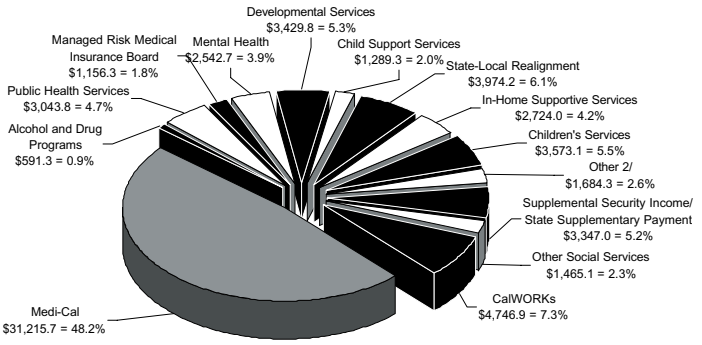
Public Health

The DHS administers numerous public health programs to prevent disease and premature death and to enhance the health and well-being of Californians. In addition, the DHS works to prevent and control chronic diseases such as Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), cancer, cardiovascular disease, and environmental and occupational diseases. Further, the DHS protects the public from consuming unsafe drinking water, manages and regulates the safety of food, drugs, medical devices, and radiation sources, and operates vital public health laboratories that support these activities and programs.

Expenditures for all public health programs and state operations total $3 billion ($631.6 million General Fund) in 2004-05. This represents a decrease of $55.6 million, or 8.1 percent, below General Fund expenditures in the 2003 Budget Act.

FIGURE HHS–1

Health and Human Services Proposed 2004-05 Funding[1/]
All Funds
(Dollars in Millions)



[1/] Totals $64,783.5 million for support and local assistance. This figure includes reimbursements of $4,993.7 million and excludes county funds that do not flow through the State budget and enhanced federal funding.

[2/] Includes Health and Human Services Agency, Department and Commission on Aging, Departments of Rehabilitation and Community Services and Development, Health and Human Services Agency Data Center, Office of Statewide Health Planning and Development, State Independent Living Council, Emergency Medical Services Authority, California Children and Families Commission, State Council and Area Boards on Developmental Disabilities, and California Workforce Investment Board, and setasides.

Public Health Funding Increases

Richmond Laboratories—$1.3 million ($424,000 General Fund) in 2004-05 to install and maintain information technology systems that support Phase III of the Richmond Laboratory Campus construction. This phase will complete the consolidation of several decentralized laboratories and offices into one State laboratory and research facility at the Richmond Campus.

Vital Records—$1.6 million special funds and 5.7 personnel years for the Vital Records Statewide Database are proposed for 2004-05. Implementation of the database will allow the DHS to provide automatically redacted copies of vital records to public parties, and thereby protect the privacy of specific information and help prevent fraudulent use of public records.

Electronic Death Registration System (EDRS)—$388,000 in special funds for the maintenance and operation of the EDRS is proposed for 2004-05. The EDRS will provide automation of vital statistics on a statewide basis and will help address identity theft and related fraud by providing faster record review and administrative access.

FIGURE HHS–2

Major Health and Human Services Program Caseloads

	2003-04 Revised	2004-05 Estimate	Change
California Children's Services [a/]	172,384	177,374	4,990
(treatment of physical handicaps)			
Medi-Cal Certified Eligible	6,619,900	6,839,700	219,800
CalWORKs			
Avg. Monthly persons served	1,261,000	1,266,000	5,000
Avg. Monthly cases	479,000	481,000	2,000
Foster Care	78,028	80,032	2,004
SSI/SSP	1,153,305	1,177,670	24,365
(support for aged, blind, and disabled)			
In-Home Supportive Services	317,600	302,400	-15,200
Child Welfare Services [b/]	175,867	176,205	338
Non-Assistance Food Stamps	379,538	396,886	17,348
State Hospitals			
Mental health clients [c/]	4,712	4,605	-107
Developmentally disabled clients [d/]	3,526	3,367	-159
Community Developmentally Disabled Services			
Regional Centers	190,030	199,295	9,265
Vocational Rehabilitation	77,534	79,624	2,090
Alcohol and Drug Programs [e/]	372,500	390,100	17,600
Healthy Families Program [f/]			
Children	732,300	737,300	5,000

[a/] Represents unduplicated quarterly caseload in the CCS Program.

[b/] Represents Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement service areas on a monthly basis. Due to transfers between each service area, cases may be reflected in more than one service area.

[c/] Represents the year-end population. Includes population at Vacaville and Salinas Valley CDC Facilities.

[d/] Represents average in-center population.

[e/] Represents Drug Medi-Cal and Prop 36 Clients.

[f/] Represents the year-end population.

Bioterrorism Prevention

The Governor's Budget includes $108.9 million federal funds and 94.8 personel years to enhance California's public health system's preparedness and response to bioterrorism, outbreaks of infectious diseases, and other public health threats and emergencies in 2004-05.

In response to the heightened threat of bioterrorism, Congress authorized funding through the Public Health and Social Services Emergency Fund to support activities related to countering potential biological threats to the civilian population. For the past two years, the DHS has been awarded grants from the Centers for Disease Control and Prevention and the Health Resources and Services Administration (HRSA), under the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002.

Funding in the budget year will provide for the completion of preparedness planning and assessment functions, development of operational plans for the Strategic National Stockpile (a national repository of pharmaceuticals and medical supplies designed to supplement and re-supply State and local health agencies in the event of a national emergency within the U.S. or its territories), detailed training and tools to perform epidemiological investigations, enhancements to surveillance and laboratory capacities, development of a risk communication system, delivery of ongoing training of public health and health care providers, continued build-out of the DHS health alert network, and development of a local assistance program with substantial resources directed to local health jurisdictions. It will also focus on the capacity and ability of hospitals, emergency medical systems, and poison control centers to respond to bioterrorism events.

Children's Medical Services

Functions of the Children's Medical Services Programs

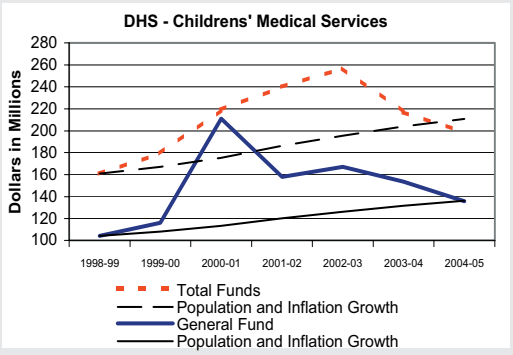
The Governor's Budget proposes a total of $198.6 million ($135.8 million General Fund) for DHS' Children's Medical Services Programs (CMS) local assistance funding, which is a decrease of $40.7 million ($43 million General Fund), below the 2003 Budget Act. Within the CMS are the following major programs: California Children's Services (CCS), Genetically Handicapped Persons Program (GHPP), and Child Health and Disability Prevention (CHDP). These programs provide medical services, case management, and therapy to persons with extraordinary medical needs who are not eligible for Medi-Cal because of their income status.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes to implement co-payments in GHPP beginning in 2004-05. This proposal will result in savings

Key Audit Findings—Children's Medical Services

- General Fund costs have increased nearly $84.7 million, or 82 percent, between 1998-99 and the 2003 Budget Act.
- The increase in expenditures is the result of expanded caseload, health care inflation, and higher costs of blood factor products.



- The CMS includes caseload-driven programs. Though not entitlement programs, these programs have been treated as such, providing full funding as enrollment increases.

of approximately $576,000 General Fund and will continue to maintain the same level of overall funding for the program which will serve an estimated 1,679 clients in the budget year.

To institute controls on unsustainable spending growth in these programs and to encourage better use of existing resources, the Governor's Budget proposes to continue in 2004-05 enrollment caps proposed for the GHPP and CCS in the 2003-04 Mid-Year Spending Reduction Proposals. In doing so, the Governor's Budget will continue to serve up to 1,679 clients in the GHPP and approximately 37,600 clients in the CCS at any point in time. When enrollment exceeds the proposed caps, CCS and GHPP clients will be added to waiting lists on a first-applied, first-served basis. As enrolled clients leave the programs, waiting list clients will be served.

Proposition 99 Expenditures

Californians continue to use fewer tobacco products each year, in part as a result of the effectiveness of the Tobacco Tax and Health Protection Act of 1988 (Proposition 99).

FIGURE HHS–3

Cigarette and Tobacco Products Surtax Fund
Proposition 99 Revenues
1989 to 2005
(Dollars in Millions)

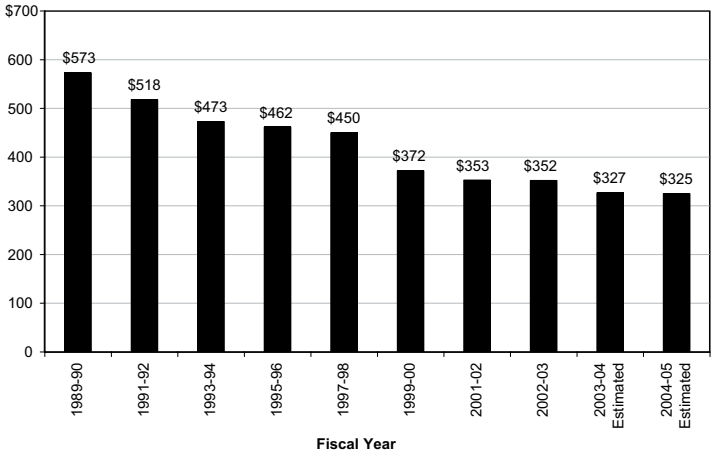


FIGURE HHS–4

Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures - 2002-03 Actual
(Dollars in Thousands)

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	-	$12,878	-$2,237	-$678	$8,825	$428	$15,769	$34,985
Prior Year Adjustment	-	1,553	-1	-	190	726	2,219	4,687
Revenues	$2,137	64,515	112,902	32,258	16,129	16,129	80,644	324,714
Proposition 10 Backfill	-	21,800	-	-	5,400	-	-	27,200
Interest	-	2,077	176	38	1,169	32	604	4,096
Total Revenues	**$2,137**	**$102,823**	**$110,840**	**$31,618**	**$31,713**	**$17,315**	**$99,236**	**$395,682**
Transfers:								
Habitat Conservation Fund	-	-	-	-	-	-	-$8,125	-$8,125
Net Resources	**$2,137**	**$102,823**	**$110,840**	**$31,618**	**$31,713**	**$17,315**	**$91,111**	**$387,557**
Expenditures:								
Department of Health Services	-	$63,056	$54,096	$2,638	$4,930	-	$53,646	$178,366
Department of Education	-	27,933	-	-	-	-	-	27,933
University of California	-	-	-	-	19,434	-	-	19,434
California Conservation Corps	-	-	-	-	-	$277	-	277
Forestry and Fire Protection	-	-	-	-	-	366	-	366
Fish and Game	-	-	-	-	-	-	-	-
State Coastal Conservancy	-	-	-	-	-	-	-	-
Parks and Recreation	-	-	-	-	-	13,635	-	13,635
Water Resources Control Board	-	-	-	-	-	1,916	-	1,916
Board of Equalization	$2,137	-	-	-	-	-	-	2,137
Office of Statewide Health Planning	-	-	-	-	-	-	1,047	1,047
Access for Infants and Mothers	-	-	30,283	13,799	-	-	31,682	75,764
Major Risk Medical Insurance	-	-	24,393	14,607	-	-	1,000	40,000
Direct Pro Rata Charges	-	184	148	17	149	-	225	723
Total Expenditures	**$2,137**	**$91,173**	**$108,920**	**$31,061**	**$24,513**	**$16,194**	**$87,600**	**$361,598**
Reserve	**$0**	**$11,650**	**$1,920**	**$557**	**$7,200**	**$1,121**	**$3,511**	**$25,959**

FIGURE HHS–5

Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures - 2003-04 Estimated
(Dollars in Thousands)

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	-	$13,539	$1,106	$60	$8,032	$343	$1,988	$25,068
Prior Year Adjustment	-	-2,906	784	488	-837	771	1,502	-198
Revenues	$2,387	61,513	107,647	30,756	15,378	15,378	76,891	309,950
Proposition 10 Backfill	-	13,400	-	-	3,300	-	-	16,700
Interest	-	1,478	176	17	1,169	17	97	2,954
Total Revenues	**$2,387**	**$87,024**	**$109,713**	**$31,321**	**$27,042**	**$16,509**	**$80,478**	**$354,474**
Transfers:								
Habitat Conservation Fund	-	-	-	-	-	-	-$7,699	-$7,699
Net Resources	**$2,387**	**$87,024**	**$109,713**	**$31,321**	**$27,042**	**$16,509**	**$72,779**	**$346,775**
Expenditures:								
Department of Health Services	-	$58,920	$33,462	$2,328	$4,738	-	$41,886	$141,334
Department of Education	-	26,560	-	-	-	-	-	26,560
University of California	-	-	-	-	21,625	-	-	21,625
California Conservation Corps	-	-	-	-	-	$285	-	285
Forestry and Fire Protection	-	-	-	-	-	384	-	384
Fish and Game	-	-	-	-	-	775	-	775
State Coastal Conservancy	-	-	-	-	-	-	-	-
Parks and Recreation	-	-	-	-	-	12,116	-	12,116
Water Resources Control Board	-	-	-	-	-	2,107	-	2,107
Personnel Administrtion	-	-	-	-	-	-	-	-
Board of Equalization	$2,387	-	-	-	-	-	-	2,387
Office of Statewide Health Planning	-	-	-	-	-	-	1,047	1,047
Access for Infants and Mothers	-	-	50,660	13,768	-	-	26,872	91,300
Major Risk Medical Insurance	-	-	24,393	14,607	-	-	1,000	40,000
Rural Health Demonstration Project							1,047	1,047
Direct Pro Rata Charges	-	173	152	14	149	2	225	715
Total Expenditures	**$2,387**	**$85,653**	**$108,667**	**$30,717**	**$26,512**	**$15,669**	**$72,077**	**$341,682**
Reserve	**$0**	**$1,371**	**$1,046**	**$604**	**$530**	**$840**	**$702**	**$5,093**

Consequently, estimated resources (including revenue, carryover, interest, and Proposition 117 transfer funds) for 2003-04 will decline $15.2 million from the 2003 Budget Act. 2004-05 total resources will be $36.5 million below the 2003 Budget Act level, which continues the year-to-year decline in this revenue source (see Figure HHS-3 for tax revenues). Due to these declining revenues and higher expenditures in the Healthy Families and Access for Infants and Mothers programs, Proposition 99 funding to other health programs is decreased as noted below:

2003-04 Expenditures—The Governor's Budget proposes expenditures of $141.3 million to fund existing DHS programs, which includes decreases of $1.7 million in the California Healthcare for Indigents Program (CHIP) and $3.2 million in DHS Health Education expenditures. University of California Research will decline by $2.2 million and the Department of Education by $1.5 million.

2004-05 Expenditures—The Governor's Budget proposes expenditures of $123.4 million for DHS programs. Funding for the Healthy Families and Access for Infants and Mothers programs was increased by $5.7 million. Due to lower revenues, funding for health programs decline by an average of 15.5 percent. Decreases include:

- $8 million for Health Education programs.
- $7.4 million to University of California Research.
- $6.1 million to the Breast Cancer Early Detection Program.

FIGURE HHS–6

Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures - 2004-05 Estimated
(Dollars in Thousands)

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	-	$1,371	$1,046	$604	$530	$840	$702	$5,093
Prior Year Adjustment	-	-	-	-	-	-	-	-
Revenues	$1,997	61,201	107,101	30,600	15,300	15,300	76,501	308,000
Proposition 10 Backfill	-	13,400	-	-	3,300	-	-	16,700
Interest	-	1,478	176	17	1,169	17	97	2,954
Total Revenues	**$1,997**	**$77,450**	**$108,323**	**$31,221**	**$20,299**	**$16,157**	**$77,300**	**$332,747**
Transfers:								
Habitat Conservation Fund	-	-	-	-	-	-	-$7,660	-$7,660
Net Resources	**$1,997**	**$77,450**	**$108,323**	**$31,221**	**$20,299**	**$16,157**	**$69,640**	**$325,087**
Expenditures:								
Department of Health Services	-	$50,932	$29,248	$2,328	$5,026	-	$35,817	$123,351
Department of Education	-	23,020	-	-	-	-	-	23,020
University of California	-	-	-	-	14,253	-	-	14,253
California Conservation Corps	-	-	-	-	-	$291	-	291
Forestry and Fire Protection	-	-	-	-	-	381	-	381
Fish and Game	-	-	-	-	-	-	-	-
State Coastal Conservancy	-	-	-	-	-	-	-	-
Parks and Recreation	-	-	-	-	-	10,729	-	10,729
Water Resources Control Board	-	-	-	-	-	2,104	-	2,104
Board of Equalization	$1,997	-	-	-	-	-	-	1,997
Office of Statewide Health Planning	-	-	-	-	-	-	-	-
Access for Infants and Mothers	-	-	53,055	13,837	-	-	26,872	93,764
Major Risk Medical Insurance	-	-	24,393	14,607	-	-	1,000	40,000
Rural Health Demonstration Project							1,047	1,047
Healthy Families Infants							3,155	3,155
Direct Pro Rata Charges	-	40	44	-	-	-	97	181
Total Expenditures	**$1,997**	**$73,992**	**$106,740**	**$30,772**	**$19,279**	**$13,505**	**$67,988**	**$314,273**
Reserve	**$0**	**$3,458**	**$1,583**	**$449**	**$1,020**	**$2,652**	**$1,652**	**$10,814**

- $4.2 million to the California Healthcare for Indigents Program.
- $3.6 million to the Department of Education.
- $2.2 million to various resources departments.

To also help balance expenditures with reduced revenue projections, $1 million for the Office of Statewide Health Planning and Development—Rural Health Grants is proposed to be eliminated.

Proposition 99 revenues and expenditures for 2002-03, 2003-04, and 2004-05 are reflected in Figures HHS-4 through HHS-6.

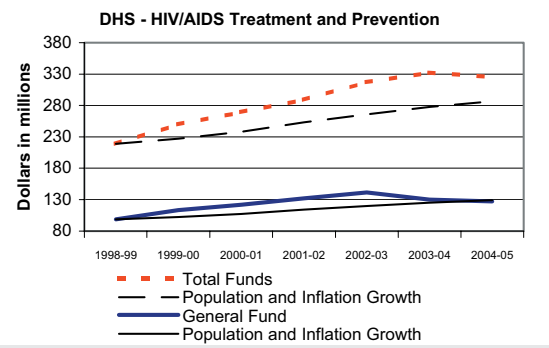
HIV/AIDS Treatment and Prevention

Functions of the HIV/AIDS Treatment and Prevention Program

The DHS' HIV/AIDS Treatment and Prevention program administers local assistance programs that provide HIV education and prevention information, HIV counseling and testing, early intervention to prevent transmission, epidemiological studies, therapeutic monitoring, housing, home and community-based care, and HIV/AIDS drug assistance to low-income persons statewide.

The Governor's Budget includes a total of $323.4 million ($127.3 million General Fund) for the Office of AIDS' Treatment and Prevention program. This is a decrease of $6.6 million, or 2 percent, below the

Key Audit Findings—HIV/AIDS Treatment and Prevention



- Costs have increased nearly $33.7 million, or 35 percent, between 1998-99 and the 2003 Budget Act.
- Nearly half of the AIDS program expenditures are in the ADAP. Though the ADAP is not an entitlement program, caseload increases historically have been funded as such.
- Increased costs in ADAP are largely attributable to caseload growth, increased AIDS drug costs, and expensive new drug therapies.
- The program is not means tested and premiums could be added for recipients with higher incomes.

2003 Budget Act. Nearly half of the total HIV/AIDS program expenditures ($207.3 million) are in the AIDS Drug Assistance Program (ADAP), which provides financial assistance to HIV/AIDS infected individuals to purchase the often-expensive drugs necessary to manage their disease. Though ADAP is not an entitlement program, caseload increases historically have been funded as such.

Improving Accountability and Other Budget Adjustments

Mid-Year Spending Reduction Proposal—Beginning January 1, 2004, the Administration proposes to cap AIDS Drug Assistance Program enrollment at approximately 23,900 clients to help prevent unsustainable spending and to preserve the existing level of service for this program. When enrollment exceeds the proposed caps, clients will be added to waiting lists on a first-applied, first-served basis. As clients leave the programs, waiting list clients will be served. The Governor's Budget includes $207.3 million ($63.8 million General Fund) to purchase prescription AIDS drugs for the ongoing program caseload, maintaining the same level of program support as provided in 2003-04. It is estimated that this program will provide treatment to nearly 26,500 clients in 2004-05.

Medi-Cal

Functions of the Department of Health Services—Medi-Cal

Medi-Cal, California's Medicaid program, is a health care entitlement for low-income individuals and families who receive public assistance or lack health care coverage. Federal law requires Medi-Cal to provide a set of basic services such as doctor visits, laboratory tests, x-rays, hospital inpatient and outpatient care, and skilled nursing care. In addition, federal matching funds are available if states choose to provide any of numerous optional benefits. These services are delivered

by a wide range of public and private providers and facilities. Providers are reimbursed by the traditional fee-for-service method or by specific monthly payments under managed care. Medi-Cal serves one in five Californians.

2003-04 Expenditures—Medi-Cal expenditures are estimated to be $29.2 billion ($9.8 billion General Fund), a General Fund decrease of 7.6 percent below 2002-03. General Fund expenditures for 2003-04 are estimated to be $187.1 million below the 2003 Budget Act, primarily because of the one-time enhanced Federal Medical Assistance Percentage (FMAP) of $566.1 million received in 2003-04 (see Figure HHS-7).

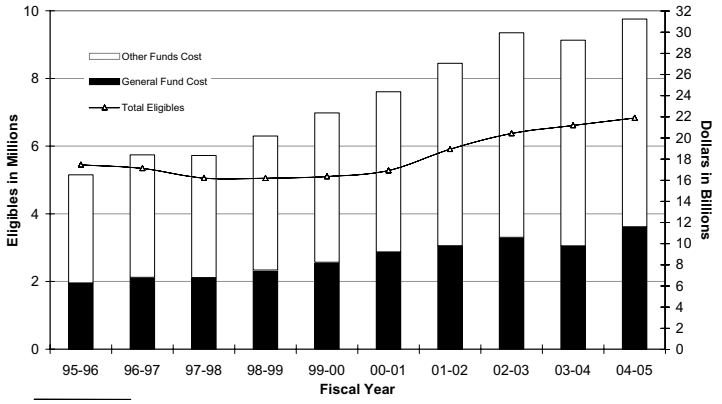
Figure HHS-8 displays annual General Fund costs per average monthly eligible beneficiary.

2004-05 Expenditures—Medi-Cal spending is projected to be $31.2 billion ($11.6 billion General Fund), a General Fund increase of $1.6 billion, or 16.2 percent above the 2003 Budget Act. The General Fund increase primarily reflects the cost of using one-time savings in 2003-04 from the accrual-to-cash accounting change within the Medi-Cal program and the enhanced FMAP received in 2003-04 as a result of section 401(a) of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. Average monthly caseload is expected to increase in 2004-05 by approximately 219,800, or 3.3 percent, to 6.8 million eligibles. Figure HHS-7 displays year-to-year comparisons of Medi-Cal caseload and costs.

Some programs, such as mental health services, in departments other than the DHS, are also eligible for federal Medicaid reimbursement. The federal funding for these programs is included in Medi-Cal expenditure totals, but State and local matching funds typically appear in the budgets for the other State agencies or local governments. Consequently, nonfederal matching funds of over $2.6 billion for those programs are not included in the Medi-Cal program costs.

FIGURE HHS–7

Medi-Cal Caseload and Costs, 1995-96 through 2004-05
(Eligibles in Millions, Dollars in Billions)



Note: The large non-General Fund portion of total expenditures reflects disproportionate share and voluntary governmental transfers for hospitals, as well as federal Medicaid funds that flow through the DHS budget to other departments.

Caseload—Currently, about 6.8 million people, or just under one in five Californians, qualify for Medi-Cal in any given month (see Figure HHS-9). The number of people eligible for Medi-Cal in 2003-04 is now estimated to be about 3.8 percent above the revised 2002-03 caseload. An increase of 3.3 percent above the 2003-04 caseload is expected to occur in 2004-05. This overall increase compares to an expected 3.3 percent increase in the state's population for the same two-year period.

The number of people made eligible for Medi-Cal through their eligibility for Public Assistance cash grants has been declining since 1995. These eligibles represent 40.6 percent of all Medi-Cal eligibles. Overall caseload is increasing, and the portion comprised of aged, blind, and disabled beneficiaries is expected to increase by 3.9 percent, to slightly more than 1,674,000 beneficiaries in 2004-05. Figure HHS-10 reflects Medi-Cal caseload by eligibility category.

FIGURE HHS–8

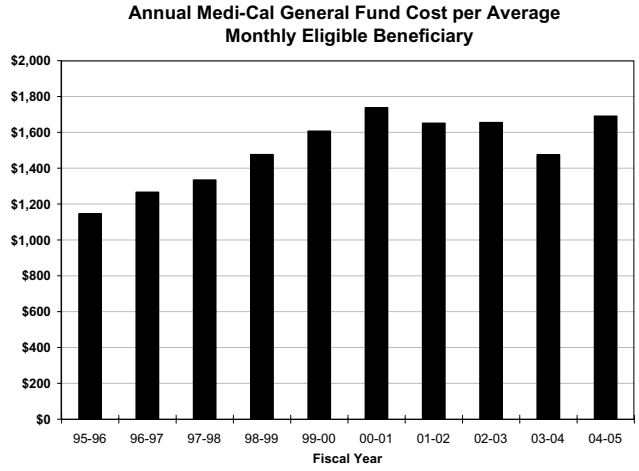


FIGURE HHS–9

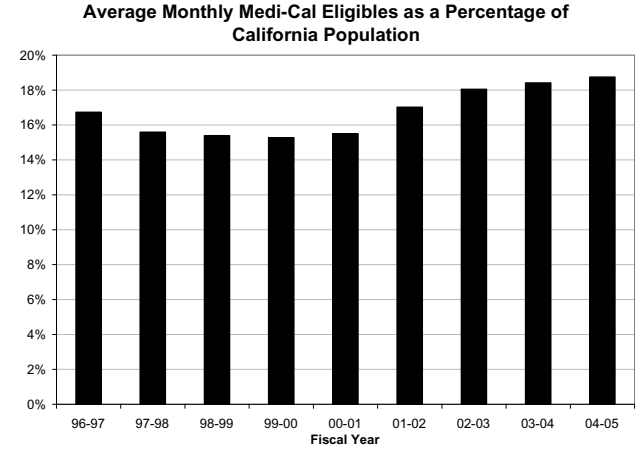


FIGURE HHS–10

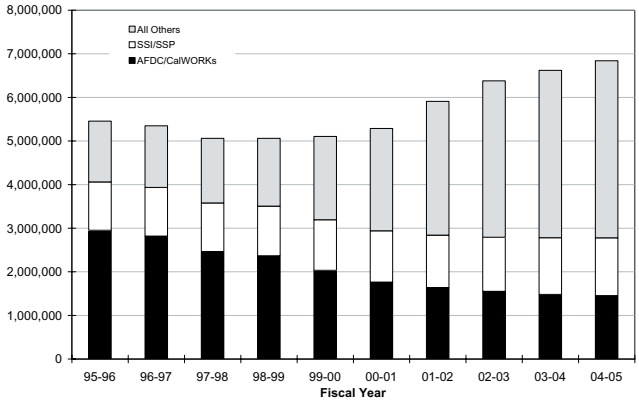


Figure HHS-11 shows federal data from 2001 (the most recent information available from the Centers for Medicare and Medicaid Services) for the ten most populous states. By percentage of state population, California served about 15.3 percent of state residents, exceeded only by New York. California also has one of the lowest average cost-per-recipient rates in the nation—$4,607 per beneficiary, versus a national average of $5,475 per beneficiary in federal fiscal year 2001.

California has achieved this rate primarily through negotiated hospital and drug rebate contracts, a high-level of utilization review, extensive prepayment controls, extensive anti-fraud efforts, and conservative provider rate reimbursements. Further, some program expansion populations, such as working parents and children, have resulted in a lower cost per eligible. However, program expansions have put tremendous pressure on the program that is impossible to sustain.

Benefits—All states are federally required to provide specific, basic medical services to Medicaid beneficiaries, including physician, nurse practitioner, and nurse-midwife services; hospital inpatient and outpatient services; specified nursing home care; laboratory and x-ray services; home health care; and early and periodic screening, diagnosis, and treatment services for children until age 21. In addition, federal matching funds are available for numerous optional services. These services include outpatient drugs, adult dental services, optometry, hospice, and occupational therapy. Currently, California offers virtually all optional benefits.

California provides more optional services than any other large state to both categorically eligible and to medically needy persons. Currently, Medi-Cal provides more

FIGURE HHS–11

Federal Medicaid Program - Interstate Comparisons
Ten Most Populous States
Federal Fiscal Year 2001

	Medicaid as a Percentage of State's Budget	Average Monthly Eligibles as a Percentage of Total Population	Expenditures, Total Funds (Dollars in Millions)	Average Monthly Eligibles	Expenditures Per Eligible	Federal Sharing Ratio (FMAP)
All States	19.6	12.9	$200,431	36,608,300	$5,475	
California	16.4	15.3	24,345	5,284,500	4,607	51.4
Texas	20.1	9.3	10,542	1,972,900	5,343	60.1
New York	25.3	16.4	20,203	3,114,500	6,487	50.0
Florida	17.0	11.2	8,897	1,831,700	4,857	56.4
Illinois	22.5	11.8	8,458	1,474,300	5,737	50.0
Pennsylvania	28.3	12.0	11,531	1,471,000	7,839	54.6
Ohio	19.8	12.1	8,367	1,378,600	6,069	58.7
Michigan	19.1	11.9	7,249	1,186,000	6,112	56.3
New Jersey	22.3	9.8	7,195	830,700	8,661	50.0
Georgia	19.4	12.7	4,831	1,063,100	4,544	59.0

Sources: National Association of State Budget Officers, the US Census Bureau, the federal Department of Health and Human Services, Centers for Medicare and Medicaid Services, and the Kaiser Commission on Medicaid and the Uninsured.

comprehensive benefits than most employer-funded comprehensive health care programs.

Drugs—During the last few years, the cost of drugs has increased dramatically (see Figures HHS-12 and HHS-13), and pharmaceutical costs have become a significant component of all health care costs. Technological advances in the development of new drugs, increased advertising of new and more expensive drugs, and expedited federal approval of new drugs have contributed to rising costs. As cost-control strategies, the Medi-Cal program utilizes a Medi-Cal List of contract drugs and a State supplemental rebate program.

FIGURE HHS–12

Prescriptions per User and Cost per Prescription
Fee-for-Service Drugs

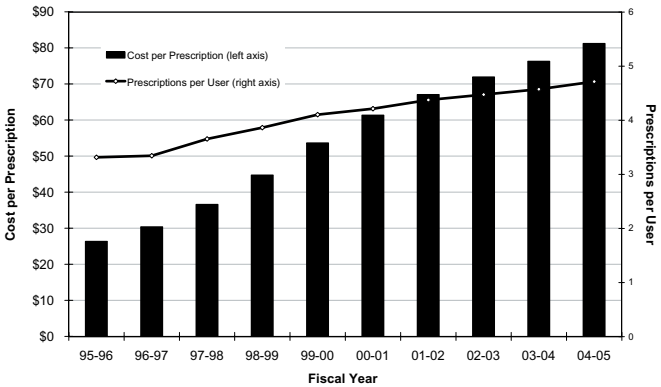
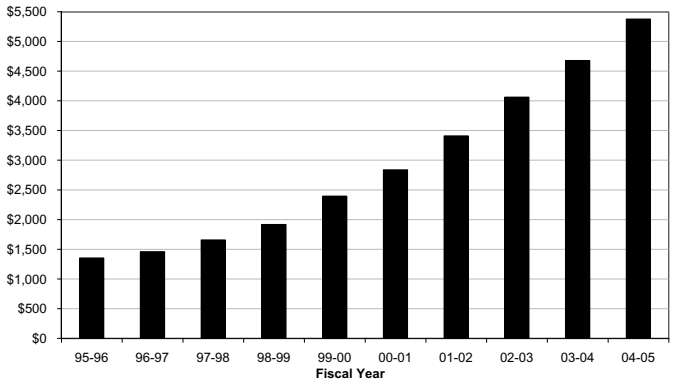
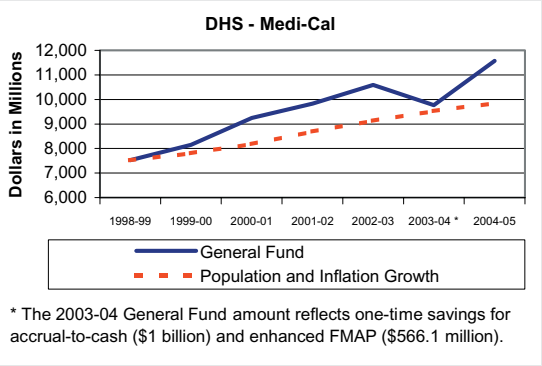


FIGURE HHS–13

Total Fee-for-Service Drug Expenditures
(Dollars in Millions)



Key Audit Findings—Medi-Cal



* The 2003-04 General Fund amount reflects one-time savings for accrual-to-cash ($1 billion) and enhanced FMAP ($566.1 million).

- Medi-Cal General Fund expenditures have grown $3.1 billion, or 41 percent, between 1998-99 and the 2003 Budget Act.
- Based on 2003-04 estimates, approximately $1.2 billion of the Medi-Cal program's General Fund growth is attributable to several recent program expansions such as Continuous Eligibility for Children, Aged and Disabled Federal Poverty Level (FPL) Program, Elimination of the Quarterly Status Reports, and the 1931(b) Program Expansion.
- The first year's costs of these expansions were $158 million General Fund. For 2004-05, it is projected that these same expansions will result in expenditures of nearly $1.3 billion, or an 870 percent increase. The number of new eligibles from these expansions is estimated to be approximately 1.5 million, or 23 percent, of the 6.5 million caseload estimated for 2003-04.
- Other Medi-Cal expansions that are still in the early stages of implementation, but may result in significant General Fund costs in future years include the Accelerated Enrollment Program, the Child Health and Disability Prevention (CHDP) Gateway, and Express Lane Eligibility.
- As illustrated in Figure HHS-10, the number of beneficiaries categorically eligible for Medi-Cal, individuals and families who are automatically eligible because they are eligible for a cash grant or subsistence payment, has been declining since 1995. However, overall Medi-Cal caseload is increasing due to Medi-Cal eligibility expansions for aged and disabled, working parents, and children.
- Options for controlling costs within the Medi-Cal program include: revisiting recent eligibility expansions; reducing benefits; reducing provider payments; restructuring and reforming the program to provide the State with flexibility to meet essential needs of beneficiaries at costs that are affordable to the State, including simplification, a multi-tiered benefit structure for mandatory and optional beneficiaries, co-payments, eliminating some Medi-Cal services that exceed standard private health insurance benefit packages, and expansion of managed care; and expanding anti-fraud and audit efforts, including enhancing Medi-Cal estate recoveries by closing loopholes and expanding hospital billing audits to deter over billings and increase audit recoveries.

Managed Care—Currently, approximately 3.5 million Medi-Cal beneficiaries (more than half of the people receiving Medi-Cal benefits and services) are enrolled in managed care plans. Managed Care enrollment has increased from 2.4 million enrollees in 1999-00

to a projected total of 3.5 million enrollees in 2004-05. The funding for managed care plans has increased from $3.4 billion ($1.7 billion General Fund) in 1999-00 to $5.4 billion ($2.7 billion General Fund) in 2004-05.

The Medi-Cal Managed Care program is a comprehensive, coordinated approach to health care delivery designed to improve access to preventive primary care, improve health outcomes, and control the cost of medical care. Managed care includes three major health care delivery systems: the two-plan model, Geographic Managed Care (GMC), and County Organized Health Systems (COHS). Approximately 2.5 million, or 72.5 percent of Medi-Cal managed care beneficiaries, are enrolled in the two-plan model, first implemented in January 1996. Twelve counties were initially selected to offer beneficiaries a choice between two managed care plans. Each two-plan county offers the choice between a commercial plan selected through a competitive bidding process or the county-sponsored "local initiative." The commercial plan consists mainly of providers who have traditionally served the Medi-Cal population. The model assures continued participation by the "traditional" providers and maximizes the types of providers caring for beneficiaries.

The GMC model allows the State to contract with multiple managed care plans in a single county. The first GMC system was implemented in Sacramento in 1994. A second GMC system began operation in San Diego County in 1998-99. Approximately 342,000 beneficiaries are enrolled in GMCs.

The third model, the COHS, administers a prepaid, comprehensive case-managed health care delivery system. This system provides utilization controls, claims administration, and health care services to all Medi-Cal beneficiaries residing in the county. Five COHSs serving seven counties are currently in operation. Approximately 621,100 beneficiaries are enrolled in COHSs.

2003-04 Mid-Year Spending Reduction Proposals

Generally speaking, since Medi-Cal costs are driven by the number of eligibles, the services provided, and the rates paid to providers for the services, options for controlling costs include serving fewer people (for example, by eliminating recent eligibility expansions), providing fewer services (for example, by eliminating optional benefits), or reducing rates paid to providers.

To begin the process of reducing escalating, unsustainable costs, the 2003-04 Mid-Year Spending Reduction Proposals included solutions to achieve General Fund savings of $206.9 million in 2003-04 and $479.4 million in 2004-05, as follows:

- Additional 10 percent rate reduction for specified Medi-Cal providers, including physicians, non-emergency medical transportation, home health, and other medical providers and services, achieving General Fund savings of $160.9 million in 2003-04 and $462.2 million in 2004-05.

- Elimination of the Wage Adjustment Rate Program, which was established in 2000-01 to provide supplemental payments to long-term care facilities that have a collectively bargained agreement to increase salaries, wages, or benefits for caregivers, to achieve General Fund savings of $46 million in 2003-04.

- Capping enrollment in Medi-Cal for immigrants at the January 1, 2004 level (909,500 beneficiaries), to achieve General Fund savings of $17.2 million in 2004-05.

Major Programmatic Reform

Over the past 30 years, the Medi-Cal program has grown dramatically—in the number and types of people served, in the array of services provided, in the systems used to deliver services, and in the costs incurred by California taxpayers. This growth has occurred within a federal program model that is cumbersome, overly complex, and provides the State with limited flexibility to make necessary modifications that reflect changing times. The federally dictated model is outdated and has resulted in program costs that California can no longer afford.

While the status quo is unacceptable, so too are the approaches employed in previous years that sought to control increasing Medi-Cal costs exclusively by eliminating large numbers of people from Medi-Cal and/or reducing optional benefits. Instead, if we are to protect the long-term viability of Medi-Cal and its ability to provide necessary medical services to eligible low-income residents, Medi-Cal must be restructured and reformed to provide the State with flexibility to meet essential needs of beneficiaries at costs that are affordable to the State.

The Governor's Budget proposes to restructure the Medi-Cal program by obtaining a Medicaid Demonstration Waiver from the federal government that would provide the State with the flexibility to continue to provide health care coverage to over 6.8 million currently eligible Californians, but do so in a more rational and affordable manner. At its core, this reform proposal would ensure that essential services continue to be provided to the low-income populations now covered by Medi-Cal while avoiding the need to make major, across-the-board reductions in program eligibility, benefits, or further provider rate reductions. By building on the reform concepts utilized by other states that have successfully restructured their Medicaid programs and better aligning Medi-Cal coverage with private sector coverage, this proposal would restructure Medi-Cal to be a more modern model that would enable the State to invest limited resources in a more efficient manner.

The Administration's reform proposals revolve around the following key principles:

- Simplify Medi-Cal eligibility standards.
- Maintain core Medi-Cal benefits for all children and those adults in most need of these benefits.
- Continue coverage for higher-income adults, offering these beneficiaries a choice of benefit packages.
- Promote personal responsibility in decision making related to the utilization of health care services by implementing co-payments and premiums.
- Expand managed care.

Due to the time needed to obtain and implement a Medicaid waiver, this proposal may not reduce Medi-Cal expenditures in fiscal year 2004-05 (no savings are included in the Budget). The redesign, restructuring, and statutory changes for this effort must begin now to ensure that the waiver is available to control Medi-Cal costs in fiscal year 2005-06. The Administration intends to engage stakeholders, constituents, and the Legislature to help inform the design of these reform efforts. Implementation would use a phased-in approach, allowing the State to monitor the progress, and make adjustments as needed as implementation issues arise. It is anticipated that savings of $400 million General Fund could be achieved in 2005-06. Other states are implementing similar

program reforms and anticipate savings ranging from 5 to 10 percent.

2004-05 Governor's Budget

The Governor's Budget embraces an alternative, strategic approach to controlling costs in the Medi-Cal program. The Governor's Budget proposes various reform measures to control costs and program growth, and expand Medi-Cal anti-fraud and audit efforts, as well as implement other program enhancements and efficiencies.

Medi-Cal Reform—This proposal would provide resources to the DHS to seek a Medicaid Demonstration Waiver to redesign the Medi-Cal program.

The key components of this proposal may include:

- **Simplification—**The State may simplify Medi-Cal eligibility by aligning Medi-Cal's eligibility standards and processes with those of CalWORKs and the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. Income standards and property tests could be aligned with CalWORKs for children and families, and with SSI/SSP for the aged, blind, and disabled.

- **Multi-Tiered Benefit/Premium Structure—**The State may offer different benefit packages, and could require different premium amounts, for the various mandatory and optional populations within Medi-Cal. States are required to continue to provide the benefit package specified in their Medicaid State Plan to federally mandatory populations (children, disabled, and certain long-term care beneficiaries). However, states have additional flexibility under federal law (the Health Insurance Flexibility Initiative) to modify their current benefit packages for optional Medicaid populations. With a federal waiver, California could structure a tiered benefit program that provides comprehensive benefits to the mandatory populations and basic benefits to optional eligibles, with more comprehensive benefits available to those willing to pay premiums.

- **Co-Payments—**The State may require co-payments from Medi-Cal beneficiaries for various services, deduct the co-payment amount from the provider reimbursement amounts, and give providers legal authority to require the co-payment as a condition of providing non-emergency care.

- **Conform Benefits to Private Plans—**The State may conform the basic Medi-Cal optional benefit package to that of private health plans. Other states, such as Oregon, offer selected optional benefits to all eligibility categories. A basic benefit package could include inpatient and outpatient services, physician services, laboratory and x-ray services, ambulance, prescription drugs, durable medical equipment, dental, and certain mental health services, but exclude other comprehensive benefits such as chiropractic and acupuncture services.

- **Managed Care Reform—**The State may expand managed care into additional counties, review and reform managed care reimbursement policy to ensure access and appropriate utilization, and encourage enrollment of the Aged, Blind, and Disabled into managed care. This proposal may not generate any budget year savings due to the lengthy process of reforming the managed care delivery system and securing State and federal

approvals. Implementation would begin in 2005-06, using a phased-in approach.

Medi-Cal Anti-Fraud and Audit Efforts— The DHS anti-fraud efforts benefit Medi-Cal by generating either program savings or cost avoidance. Savings are achieved when actively fraudulent providers are identified, and claims are no longer paid or overpayments are recovered. Cost avoidance results when fraudulent providers are prevented from initial enrollment in Medi-Cal, avoiding fraudulent charges before they occur. Anti-fraud efforts implemented since 2000-01 have resulted in savings of $371 million General Fund and cost avoidances of $352 million General Fund.

The Governor's Budget includes the following proposals to further enhance efforts to combat fraud, waste, and abuse in the Medi-Cal program:

- **Enhance Medi-Cal Estate Recoveries and Increase Long-Term Care Insurance Purchases—**This proposal would close a loophole used by middle-income persons to prevent the State from recovering assets from their estates. Proposed statutory changes would authorize the DHS to recover Medi-Cal costs from annuities included in deceased beneficiaries' estates. Concurrent with this proposal, the DHS would continue to increase the number of middle-income persons purchasing long-term care insurance, which serves to control Medi-Cal program costs.

- **Expand Hospital Billing Audits—**This proposal would increase the number of field audits of fee-for-service (non-contract) hospital cost reports, home office cost reports, and related billings. Due to recent budget reductions, the DHS has substituted desk audits for some field audits, resulting in a decrease in audit recoveries. However, as these positions deter over-billings and are cost-effective, the Governor's Budget proposes an additional 41 staff for the DHS at an annual cost of $4.7 million ($2.4 million General Fund), to be phased in during 2004-05 to achieve projected gross savings of approximately $7.7 million ($3.8 million General Fund), resulting in net 2004-05 savings of $2.9 million ($1.4 million General Fund). Annual savings of $30.6 million ($15.3 million General Fund) would be achieved beginning in 2005-06.

- **Provider Feedback—**This proposal would allow the DHS to send mid-year billing data to Medi-Cal providers with suspicious billing patterns. Previous efforts have resulted in decreased billings from those providers. The DHS would implement this proposal within existing resources, and savings of $5 million ($2.5 million General Fund) would be achieved in 2004-05.

- **Beneficiary Confirmations—**This proposal would allow the DHS to confirm receipt of services or products with selected Medi-Cal beneficiaries via mail or on-site visits. The DHS would implement this proposal within existing resources, and savings of $2 million ($1 million General Fund) would be achieved in 2004-05.

- **Restrict Electromyography and Nerve Conduction Tests to Specially-Trained Physicians—**Currently, any physician, regardless of their specialty, can bill Medi-Cal for electromyography (a test that measures muscle response to nerve stimulation) and nerve conduction tests. There has been a considerable

amount of fraud and abuse identified in the billing of these tests by physicians who are neither trained to conduct the tests nor interpret the results. This proposal would restrict the billing to neurologists, physical medicine, and rehabilitation trained physicians who have received specialized training in electromyography and nerve conduction tests. This proposal would result in savings of $1.3 million ($652,000 General Fund) in 2004-05 and $2.3 million ($1.1 million General Fund) annually thereafter.

- **Implement Counterfeit-Proof Prescription Pads—**This proposal would require all prescriptions for Medi-Cal beneficiaries to be written on prescription blanks obtained from State printing vendors, which would reduce forging and/or altering of prescriptions and provide an inventory of prescribers' drug orders. As there would be significant lead-time required for implementation of this proposal, there would be no savings in 2004-05; however, estimated savings in 2005-06 could be between $7 million and $14 million General Fund, with annualized savings increasing as the deterrent factor would also generate savings over time.

- **Convert 15 Limited-Term Medi-Cal Anti-Fraud Positions to Permanent—** The Budget Act of 2002 established 40 DHS positions for Medi-Cal anti-fraud activities. These positions perform provider enrollment and re-enrollment reviews to identify, investigate, and remove fraudulent providers from the Medi-Cal program. Fifteen of these positions were scheduled to expire June 30, 2004, to provide an opportunity to review the effectiveness of these positions. As a result of these additional 40 positions, savings due to Medi-Cal provider enrollment reviews increased from $35.9 million ($17.9 million General Fund) in 2001-02 to $59.7 million ($29.9 million General Fund) in 2003-04. The Governor's Budget proposes to provide $1,239,000 ($443,000 General Fund) to continue these limited-term Medi-Cal anti-fraud positions permanently.

- **Transfer Medi-Cal Audit Positions from the State Controller's Office (SCO) to the DHS—**This proposal would shift the workload to 20 new positions at the DHS. This proposal would reduce state operations costs for this workload by approximately $300,000 General Fund due to efficiencies achieved, and would provide better coordination.

- **Reduce Medi-Cal Provider Float—**This proposal would delay Medi-Cal checkwrites by one week, to allow additional time for the DHS to investigate potentially fraudulent claims before checks are issued. This proposal would result in one-time General Fund savings of $143.5 million in the 2004-05, and would not require statutory or regulatory changes, as provider payments would still be made within State and federal time limits. The Administration anticipates that the one-time savings would be replaced with some level of ongoing savings from reduced fraud.

Program Enhancements and Other Budget Adjustments

Assess Quality Improvement Fee on Medi-Cal Managed Care Plans—The Medi-Cal managed care plans provide health services to approximately 3.5 million beneficiaries. The Governor's Budget proposes to allow the DHS to assess a 6 percent

quality improvement fee on all lines of business within the Medi-Cal managed care plans as a vehicle for leveraging and receiving additional federal funding. Medi-Cal managed care plans wishing to participate would be required to break off the Medi-Cal portion of their business into a separate entity as a condition of federal approval.

This proposal would generate additional federal funding for the health plans and would result in savings of $75 million for the General Fund in 2004-05.

This proposal replaces a 2003 May Revision proposal that would have allowed the DHS to assess a quality improvement fee on only the Medi-Cal line of business within the health plans. This proposal was approved by the Legislature and was included in the 2003 Budget Act, with savings of $37.5 million General Fund assumed in 2003-04. The federal government has stipulated that the fee would have to be assessed on all lines of business within the health plan, not just the Medi-Cal line of business. As a result, the State will not be able to implement the proposal as included in the 2003 Budget Act.

Controlling County Administration Costs within the Medi-Cal Program—Because counties do not share in either the administrative or benefit costs of Medi-Cal, there is no incentive for counties to control Medi-Cal costs. The Governor's Budget proposes to implement a formal plan to control county welfare department allocations for Medi-Cal eligibility determinations. The DHS would submit a control plan to county welfare departments in January 2005, including productivity standards and overall performance standards. Budget bill language is also proposed to restrict county wage increases to specified cost-of-living adjustments (COLAs), with the intent of reducing the wide disparity in efficiency that exists among the different counties. This proposal would result in savings of $20 million ($10 million General Fund) in 2004-05, with savings reaching $40 million ($20 million General Fund) at full implementation.

Adult Day Health Care (ADHC) Reform— This proposal would institute ADHC reform by implementing a one-year moratorium on new ADHC centers and a moratorium on certification for increased capacity of existing ADHC centers. These centers would continue to be licensed by the DHS and would continue receiving private pay reimbursement. This proposal would also remove therapy and transportation from the bundled ADHC reimbursement rate, allowing the ADHC centers to bill for these services separately. This proposal would result in savings of $25.4 million ($12.7 million General Fund) in 2004-05.

Reduce Interim Rates by 10 Percent for Cost-Reimbursed Acute Care Hospitals— Currently, the interim rate of payment for each cost-reimbursed acute care hospital is calculated, as closely as possible, to the reimbursable cost for providing services to Medi-Cal beneficiaries. The interim rate provides payments as services are being provided throughout the fiscal year. The annual cost report is then reviewed, audited, and reconciled to the interim payment previously made for the fiscal year five months after the hospital's fiscal year end.

The Governor's Budget proposes to reduce the interim rate paid to acute care hospitals by 10 percent effective December 1, 2003. The hospital would continue to be cost-settled at the end of the fiscal year, when the DHS has received and audited the hospital's cost reports. This proposal would not reduce the total Medi-Cal payments for hospital inpatient services, but would result in savings

of $36.2 million ($18.1 million General Fund) in 2003-04 and $62 million ($31 million General Fund) in 2004-05.

Revise Rate Methodology for Federally Qualified Health Centers and Rural Health Clinics—These facilities, which serve a large portion of the low-income population, receive enhanced reimbursement from Medicare and Medi-Cal. Federal legislation required reimbursement to these facilities be changed to a Prospective Payment System effective January 1, 2001. The new rates were to be calculated using the average of the 1999 and 2000 cost reports. However, the prior Administration allowed the election of only the 2000 cost report as an alternative rate methodology. Additionally, the calculation of these rates was based on reported, un-audited cost information, resulting in an overstatement of costs in some instances.

This proposal would seek federal authority through a State Plan Amendment to eliminate the alternative rate methodology, and to recalculate and set the rates prospectively using the average of the 1999 and 2000 cost reports, as was originally required in the federal legislation, and base the rates on audited or reconciled cost information. This proposal would result in savings of $7.6 million ($3.8 million General Fund) in 2003-04, and $64.5 million ($32.2 million General Fund) in 2004-05.

Health Insurance Portability and Accountability Act

In August 1996, the federal Health Insurance Portability and Accountability Act (HIPAA) was signed into law. The HIPAA is designed to improve the availability of health insurance to working families and their children. It also requires administrative simplification, revised security procedures, and fraud control. The HIPAA is comprised of several rules aimed at meeting these goals.

The HIPAA impacts 14 departments statewide, and the California Office of HIPAA Implementation (CalOHI) is statutorily required to provide statewide oversight for HIPAA implementation.

The 2003 Budget Act includes $75.4 million ($21.2 million General Fund) to continue HIPAA compliance efforts. The 2003-04 Mid-Year Spending Reduction Proposals reduced funding for the HIPAA in 2003-04 to $61.2 million ($15.8 million General Fund), primarily as a result of unexpended prior year or unneeded current year funding for contracts.

As part of development of the Governor's Budget, CalOHI performed a zero-based, statewide analysis of HIPAA resources by department. As a result, resources should be realigned between departments, including slight increases for the Departments of Aging, Mental Health, Veterans Affairs, and the Managed Risk Medical Insurance Board, and slight decreases for the Departments of Social Services, Alcohol and Drug Programs, Health Services, and CalOHI. The Governor's Budget proposes $65 million ($18.5 million General Fund) to continue HIPAA compliance efforts.

Emergency Medical Services Authority

Functions of the Emergency Medical Services Authority

The Emergency Medical Services Authority (EMSA) provides statewide coordination of emergency medical services (EMS), regulates the education, training, and certification of EMS personnel, develops guidelines for local

EMS, and coordinates the State's medical response to any disaster. The Governor's Budget proposes $22.4 million ($10.7 million General Fund) and 43 personnel years to carry out the Department's programs in 2004-05.

Program Enhancements and Other Budget Adjustments

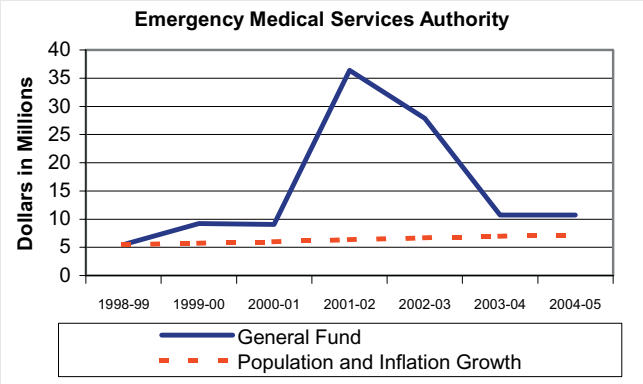
Hospital Bioterrorism Preparedness Program—The Governor's Budget proposes that $6 million in federal grant funds be utilized to support specific anti-bioterrorism activities by the State and its counties. The grant funds have been awarded by the federal Health Resources and Services Administration to the Department of Health Services, as part of a larger grant, and will be passed through to the EMSA. Specifically, the $6 million will be used to increase the hospital, community clinic, and emergency medical system capacity to respond to injuries and illnesses that result from incidents of bioterrorism, develop mutual aid plans to serve areas not currently covered by EMS agencies in the event of acts of bioterrorism, and enhance the capability of the California Poison Control System to report data suggestive of bioterrorism actions to local and State health departments in a timely manner.

Managed Risk Medical Insurance Board

Functions of the Managed Risk Medical Insurance Board

The MRMIB administers programs that provide health care coverage through private health plans to certain groups without health insurance and develops policy and recommendations on providing health care insurance to the 6.3 million Californians

Key Audit Findings—Emergency Medical Services Authority



- The EMSA budget increased by $9 million ($5.3 million General Fund), or 95 percent, from 1998-99 to the 2003 Budget Act.
- The major General Fund increases in 2001-02 ($30 million) and 2002-03 ($20 million) were for support of local trauma care centers, which were the result of legislative budget augmentations. No General Fund was provided to the EMSA for trauma system support as of the 2003 Budget Act.
- The $5.3 million General Fund growth from 1998-1999 to 2003-04 is largely attributable to a backfill of lost federal fund support for the California Poison Control System to provide a stable, ongoing funding source.

who go without health care coverage in a given year. The three programs administered by the MRMIB are the Healthy Families Program, the Access for Infants and Mothers program, and the Major Risk Medical Insurance Program.

Healthy Families Program (HFP)—This Program is a subsidized health insurance program for children in families with low-to-moderate income who are ineligible for no-cost Medi-Cal. This program provides low-cost health, dental, and vision coverage to eligible children from birth to age 19.

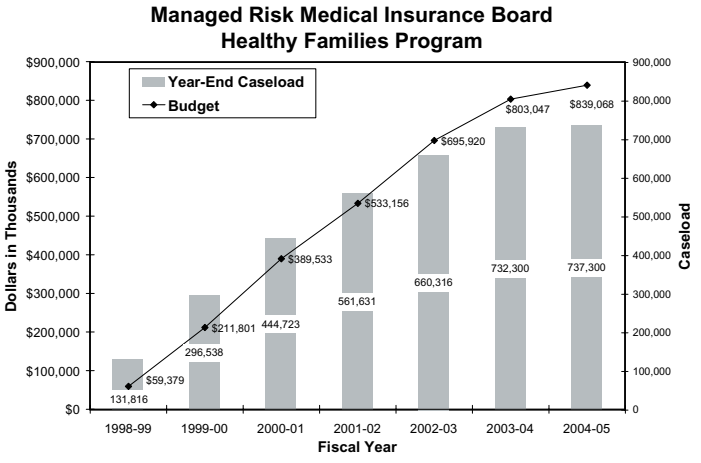
HFP expenditures for the MRMIB grew from $59.3 million ($15.6 million General Fund) in 1998-99 to $839.1 million ($305.5 million General Fund) in 2004-05, an increase of $289.9 million General Fund, or 1,858 percent. Since year-end 1998-99, children's caseload has grown from about 132,000 to an expected 737,000 in 2004-05 for a total increase of 605,000 children, or 458 percent. Figure HHS-14 displays historical caseload and funding growth for the HFP.

Access for Infants and Mothers (AIM)—This program provides low-cost, comprehensive health insurance coverage to uninsured pregnant women with family incomes between 200 percent and 300 percent of the FPL. This coverage extends from pregnancy to 60 days postpartum, and covers infants up to two years of age. The Governor's Budget includes a total of $117.3 million ($98.6 million Perinatal Insurance Fund) for this program, a net decrease of $750,000 ($1.2 million General Fund decrease, $2.6 million Perinatal Insurance Fund increase, and $2.2 million federal funds decrease) below the 2003 Budget Act. These funding changes reflect updated caseload estimates, as well as the shift of certain infants born to AIM mothers into the HFP, in accordance with the omnibus health trailer bill to the 2003 Budget Act.

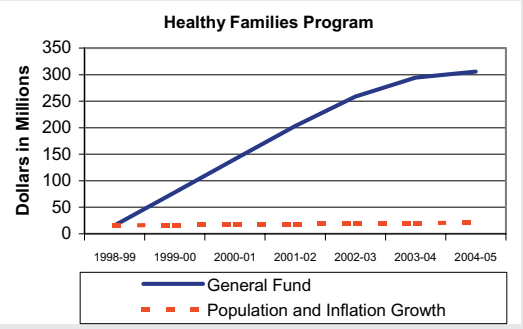
The Budget for this program has increased from $41.7 million ($37.5 million Perinatal Insurance Fund) in 1998-99 to $117.3 million ($98.6 million Perinatal Insurance Fund) in 2004-05, for a total increase of $75.6 million ($61.1 million Perinatal Insurance Fund), or 181 percent. Since 1998-99, caseload has grown from 6,288 women and infants to a total of 14,139 women and infants in 2004-05, or an increase of 125 percent.

Major Risk Medical Insurance Program (MRMIP)—This program provides health care coverage to medically high-risk individuals and the medically uninsurable who are refused coverage through the individual health insurance market. Program enrollment is "capped" at the level of annual funding provided. The program currently provides benefits to a total of 7,088 persons, with 87 persons on the waiting list. The waiting list has declined due to the recent implementation of Chapter 794, Statutes of 2002 (AB 1401), which uses a market-based solution to reduce the waiting list of applicants. Pursuant to Chapter 794, effective September 1, 2003, subscribers who had been in the program for 36 months began

FIGURE HHS–14



Key Audit Findings—Healthy Families Program



- Costs have increased in the Healthy Families Program by $279.7 million General Fund, or 1,705 percent, between 1998-99 and the 2003 Budget Act.
- These cost increases are largely due to increased caseload, which has grown by 459 percent in that same time period.
- To address the significant, unsustainable growth in expenditures, the program could be capped and higher premiums could be required for children in higher income families.

transitioning into guaranteed-issue coverage offered by health plans in the individual insurance market.

Improving Accountability and Service Delivery

In light of the significant, unsustainable growth in HFP expenditures, the Administration proposes to control future program expenditures by capping enrollment in the near term and providing higher-income program subscribers with a choice of benefit packages in the long term. These proposals would not disenroll any current program subscribers.

- **Cap Healthy Families Enrollment—** As proposed in the Mid-Year Spending Reduction Proposals, enrollment in the HFP is proposed to be capped at the January 1, 2004 level, or an estimated 732,300 children. Waiting lists will be established and as attrition occurs, new enrollments will be accepted. It is estimated that 20,000 children will leave the program monthly in the budget year due to age or income level changes. This proposal would not result in current year savings due to the increased administrative costs to maintain the waiting list, but is expected to result in budget year savings of $86.3 million ($31.5 million General Fund). The enrollment cap would not apply to infants born to mothers enrolled in the AIM program.

- **Two-Tiered Benefit Structure for Children with Family Incomes Between 201 Percent and 250 Percent of the FPL—** Children enrolled in the program with family incomes between 201 percent and 250 percent of the FPL (monthly income between $2,544 and $3,180 for a family of three) would be offered a choice of benefit packages. A two-tiered benefit package is proposed—a basic benefit package would be offered excluding dental and vision coverage at current premium levels, and a comprehensive package would include all benefits with higher monthly premiums. Due to the need to notify subscribers of the new benefit options, this proposal would not be implemented until 2005-06, and no savings is assumed in 2004-05. This proposal would result in increased administrative costs of $750,000 ($263,000

General Fund) in the budget year to modify the HFP administrative system to accommodate the two benefit package options and provide for increased volume on the toll-free telephone assistance line.

Department of Mental Health

The Governor's Budget includes $2.5 billion ($910.7 million General Fund), a net increase of $373.4 million ($39 million General Fund) above the 2003 Budget Act for mental health programs. The Department of Mental Health (DMH) ensures a continuum of care exists throughout the state for children and adults who are mentally ill, by providing oversight of community mental health programs and direct services through the State hospitals.

State Hospitals

Functions of the State Hospitals

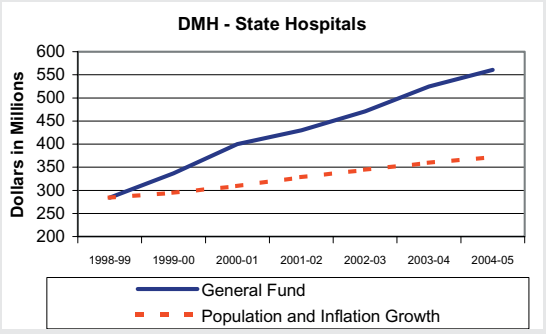
The state hospitals, directly operated by the DMH, provide long-term care services to the mentally ill. The General Fund supports judicially committed and penal code patients, while counties fund other civil commitments. Over the last ten years, the General Fund cost of operating the four state hospitals has increased 124 percent. Within state hospitals, the majority of costs are for treatment staff that provide 24-hour care for patients. In order to address both the increased per patient costs and unsustainable General Fund expenditures, it is necessary to reform how state hospital services and related clinical functions are provided to mentally ill individuals with criminal histories. The Governor's Budget proposes reforms that will achieve savings and cost avoidance of $17.2 million General Fund in 2004-05 and $25.6 million in 2005-06.

Improving Accountability and Service Delivery

Indeterminate Commitment of Sexually Violent Predators (SVPs)—In California, district attorneys are responsible for repeating the entire commitment process in order to extend the commitment beyond two years, even when there is no clinical indication that a SVP is ready for release. The recommitment process includes mandatory evaluations of

Key Audit Findings—State Hospitals

- General fund expenditures increased by $215.6 million, or 76 percent, between 1998-99 and the 2003 Budget Act.
- Funding growth is primarily due to caseload increases.
- In 2002-03, it cost the State $141,000 per patient per year.
- Cost containment measures must include programmatic reforms to utilize staff more effectively and efficiently and a process to prioritize which individuals will receive treatment within state hospitals.



patients and new commitment trials. This reform will result in savings to the State of $2 million General Fund by changing the SVP commitment from two years to an indeterminate length in order to eliminate unnecessary evaluations. This proposal will also result in savings at the local level due to fewer commitment re-trials.

SVP Treatment Reform—A decrease of $823,000 General Fund will be achieved by restructuring the supervision and treatment services provided in state hospitals to SVP patients. Approximately 60 percent of the SVP patients in state hospitals refuse to participate in treatment and reductions in treatment staff are recommended to achieve savings of $9.2 million General Fund in 2005-06.

Require Civil Commitment Trials be Held Prior to Release From Prison— The Administration encourages courts and local district attorneys to conduct commitment trials for SVPs prior to the inmate's release from prison, and proposes that individuals who have completed a prison sentence be kept in local custody while awaiting a commitment hearing. Many other states hold pre-trial SVPs in local custody, and savings of $10.7 million General Fund can be achieved through this change.

Maintain State Hospital Population— In order to curtail the unsustainable growth in General Fund expenditures for judicially committed patients, the DMH will develop a process to prioritize patient intake based on the need for treatment. Anticipated savings of $2.8 million ($3.7 million General Fund) will be achieved by limiting intake to those most in need of services.

Early Periodic Screening, Diagnosis, and Treatment Program

Functions of the Early Periodic Screening, Diagnosis, and Treatment Program

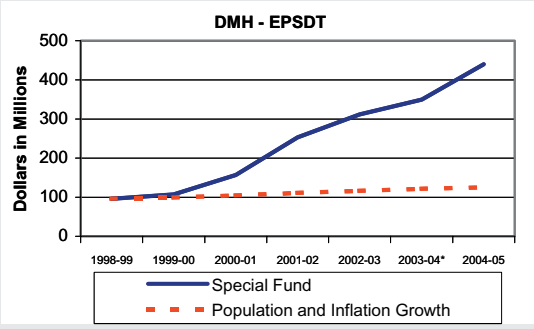
The Early Periodic Screening, Diagnosis, and Treatment (EPSDT) program is an entitlement program for children and adults under 21. Under the EPSDT program, approximately 170,000 Medi-Cal eligible children and young adults receive any service that ameliorates a diagnosed mental illness. The Administration is committed to continuing vital mental health services for children and young adults, and the Governor's Budget includes $787 million ($365 million General Fund) to maintain these services.

However, the EPSDT program has grown dramatically in recent years. In the last five years, General Fund expenditures increased by 285 percent and additional measures to control costs are necessary. Similar to the overarching Medi-Cal program, much of the growth is due to an antiquated federal model. The combination of broad federal eligibility criteria, a wide array of services, and limited fiscal incentives for counties to control costs result in program costs that California can no longer afford. The 2004-05 Governor's Budget proposes several measures that will allow California to continue to provide necessary mental health services in a more rational and affordable manner.

Improving Accountability and Service Delivery

- **Update Maximum Rates—**The current maximum rates for services were established using 1989-90 data, which have been updated annually with

Key Audit Findings — EPSDT



- Not including the accrual-to-cash accounting change, costs have increased 285 percent between 1998-99 and the 2003 Budget Act.
- Counties essentially control the amount and duration of treatment services, but have had little in the way of fiscal incentives to control costs because the State provides most of the matching funds for the non-federal growth in EPSDT program costs.
- There are currently no audits conducted specifically targeting this program.
- Options to contain costs include: ensuring that rates reflect actual costs, implementing oversight activities to monitor expenditures, seeking federal flexibility to reform the program so that the essential needs of beneficiaries can be met at costs that are affordable to the State.

COLAs. The DMH is responsible under the State's federal plan for adjusting the maximum rates paid for services based on actual costs. A survey of actual costs is an important measure in the effort to avoid unnecessary spending, and adjusting rates accordingly is estimated to save $40 million General Fund. Utilizing this survey, the DMH will review and reform the rate structure to ensure the continued participation of local governments in serving both children and adults in the mental health system.

- **Increased Oversight**—In order to curtail fraud, waste, and abuse in the program, the DMH will initiate targeted audits of claims. No audits are currently conducted of expenditures specific to this program. Net savings of $5.7 million General Fund are estimated, and savings may increase as a result of the deterrent effect the audits will create.
- **Federal Relief**—Consistent with the larger Medi-Cal reform effort, the State will also pursue federal authority to narrow the very broad medical necessity criteria. Such action is necessary in order to enable California to maintain its commitment to the children and young adults most in need of mental health services. Savings from the proposal is indeterminate at this time, but could be significant, starting in 2005-06.
- **Restructuring of Existing Programs**—As noted above, the Administration will continue to invest significant resources in this program to maintain necessary mental health services. Given the availability of a wide range of medically necessary services and large numbers of needy children and young adults receiving services under the EPSDT program, it is no longer necessary to continue the Children's System of Care program.

Community Mental Health Services

Functions of Community Mental Health Services

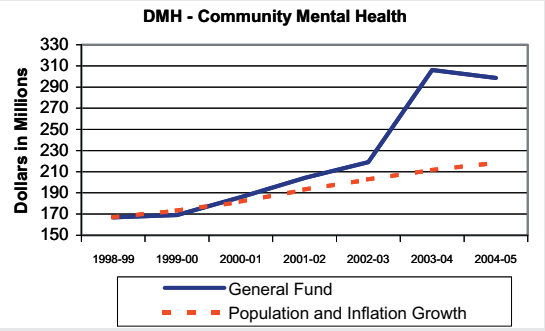
The Administration strongly believes that mental health services should be provided in communities, in order to prevent commitment to a state hospital or incarceration. The Governor's Budget includes $1.8 billion ($298.6 million General Fund), a net increase of $304.2 million compared to the 2003 Budget Act, for community mental health services. The Administration remains committed to providing mental health services through the following programs:

Managed Care—This cost-effective program allows counties to manage treatment services effectively at a local level and provides a fiscal incentive for counties to stay within an annual allocation provided by the State. An increase of $10 million ($5.1 million General Fund) is proposed in the Governor's Budget to reflect increased caseload in the managed care program.

Integrated Services for the Homeless—The Governor's Budget continues funding of $54.9 million General Fund for the Integrated Services for Homeless Adults program, which has a proven track record of success in treating and providing services to the mentally ill. Additionally, evaluations have shown that this program leads to significant savings at the local level, and continuing this program provides essential fiscal relief to counties in these difficult times.

Preadmission Screening and Residential Review Program—An increase of $1.9 million ($470,000 General Fund) is proposed for the expansion of the Preadmission Screening and Residential Review program. Through this Program, individuals admitted to nursing homes are evaluated to determine if specialized mental health treatment alternatives that are available in communities at lower costs, can better meet their needs.

Key Audit Findings—Community Mental Health



- General Fund expenditures for these programs grew more than $90 million, or 39 percent, between 1998-99 and the 2003 Budget Act.
- Funding growth is primarily due to increases in the number of individuals receiving mental health managed care services and expansions in State-only discretionary programs such as Integrated Services for Homeless.
- The purpose of managed care is to provide mental health services to Medi-Cal eligible clients through a system of contracts between the DMH and county mental health departments.

Department of Developmental Services

For more than 30 years California has maintained a model program to provide services to individuals with developmental disabilities. However, this program has grown significantly in terms of the number of individuals receiving services, services provided, and the cost to California taxpayers. In the last five years alone, General Fund expenditures grew by more than $1.1 billion, and this rate of growth is not sustainable.

The Mid-Year Reduction Plan included proposals to limit enrollment and eliminate services as an initial response to the need to immediately address uncontrolled growth in this area. The 2004-05 Governor's Budget presents an alternative approach to slowing growth in this program while maintaining the Lanterman Act entitlement to services for individuals with developmental disabilities.

The Administration's reform proposals revolve around the following key principles:

- Everyone who is eligible should be entitled to receive necessary services.
- There should be a share-of-cost for those who can afford to pay.
- Services should be provided in the least costly manner possible.
- Regional centers should be able to manage available resources in such a fashion as to insure the health and safety of all consumers.
- Allowable services and rates need to be clearly defined.
- Only necessary services and reasonable administration should be funded.
- Individuals with developmental disabilities should have the opportunity to live in the most integrated and least restrictive setting possible.

The Administration is hopeful that consumers, stakeholders, regional centers, and the Legislature will provide constructive input to facilitate the necessary changes and prevent the need for more drastic cost control measures in the future.

Regional Centers

Functions of the Regional Centers

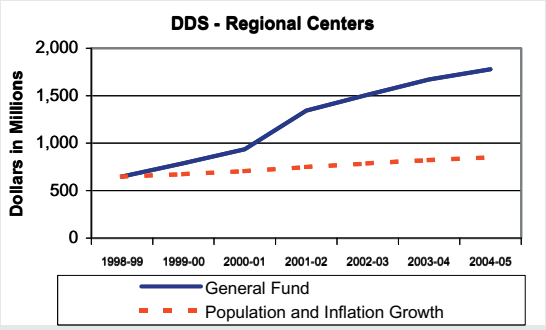
The regional centers are non-profit corporations contracted by the Department of Developmental Services (DDS) to provide services mandated under the Lanterman Act to almost 200,000 people with developmental disabilities. The Governor's Budget proposes $2.7 billion ($1.8 billion General Fund) to support the regional centers in 2004-05. This includes support for the transfer of the Habilitation Services Program (HSP) from the Department of Rehabilitation (DOR) on July 1, 2004.

The Governor's Budget does not propose to create a cap on caseload or eliminate services, and achieves savings while continuing to provide services to everyone that is eligible. The proposed Budget includes an increase of $27.8 million ($3.1 million General Fund) over the revised current year estimates for regional center services (notwithstanding the net $103.7 million increase for the transfer of the HSP).

Improving Accountability and Service Delivery

Regional Center Cost Containment—This proposal maintains California's commitment to support individuals with developmental dis-

Key Audit Findings—Regional Centers



- Since 1998-99 the program has grown by $1.1 billion General Fund, or 166 percent.
- Growth is attributable to increases in caseload, utilization of services, costs per consumer, and costs associated with community placement plans.
- Administrative costs at regional centers are high and the centers have a monopoly on community-based care.
- An increasing percentage of new consumers are diagnosed with autism, a disability requiring a greater number of expensive services.
- There are few limits on the services a consumer may receive, and no consideration is given to evaluating the marginal benefit to consumers or to whether resources could be better utilized for consumers with more critical needs.
- Options to contain costs must address either caseload, the scope of services, or cost of services. Specific proposals could include co-payments, statewide standards for services, individualized plans that include only necessary services, or modifying rate structures to capture additional federal funds.

abilities, and also reflects anticipated savings of $100 million General Fund. The proposal also recognizes that program costs have grown 244 percent over the past ten years while caseload has grown 70 percent. In the past five years alone, General Fund expenditures have increased 166 percent. California cannot sustain future growth and costs of this magnitude. Changes must be pursued that will enable continued delivery of needed services to the most vulnerable consumers within reasonable limits. This proposal would reform service delivery by implementing:

- A co-payment from those who can afford to pay.
- A requirement that services be provided in the least costly manner possible.
- Meaningful statewide standards to allow regional centers to prioritize and manage the resources provided through the budget process to deliver necessary services and ensure the health and safety of all consumers.

It is the Administration's expectation that, taken together, these reforms will help regional centers and the State more effectively manage program costs while ensuring continued access to necessary services. To the extent cost containment measures implemented in 2003-04 (including rate freezes and operations reductions) slow the program's rate of growth, more dramatic reductions may be avoided. With constructive input from consumers, stakeholders, the regional centers,

and the Legislature, thoughtful and necessary changes can be made to ensure continued delivery of necessary services to those who need them most.

Prioritizing Need and Setting Standard Rates—Under the current system, consumers are entitled to receive any services regardless of the relative benefit provided if the service addresses an issue identified in the Individual Program Plan. By developing standards, the State and the regional centers will ensure all consumers receive necessary services within available funding. It will also be necessary to evaluate the rates paid for services if the State is to control these spiraling, unsustainable expenditures. Once standards have been established, the DDS will initiate a process of setting standard rates for all services, and regional centers will no longer be able to freely negotiate rates with third parties and expect the State to continue to fund the resultant costs.

Other Budget Adjustments

Transfer of Title XX Grant Funding to Regional Centers—A $48 million General Fund Savings to reflect the shift of available Title XX Grant Funding to regional centers.

Unallocated Reduction to Regional Center Administration—As a contractor, the regional centers are responsible for determining the most effective use of funding provided for administration of the program. However, opportunities to achieve operational savings within the regional centers exist. The salaries of many regional center administrators exceeds those of comparable State officials. In some instances, compensation for executive directors even exceeds the Governor's authorized salary of $175,000. The Administration proposes an unallocated reduction of $6.5 million General Fund as an immediate response to control regional center administration costs. The DDS will work to develop a long-term strategy to minimize excessive spending and waste on administrative activities and maximize the resources dedicated to direct services.

Developmental Centers

Functions of the Developmental Centers

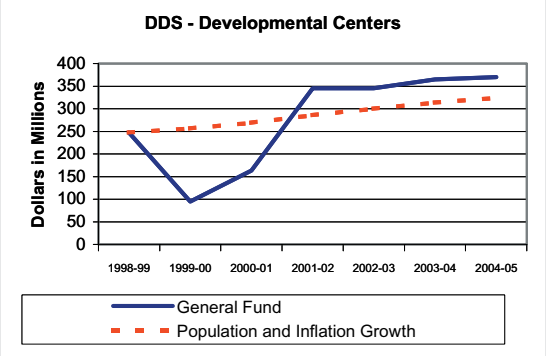
The developmental centers are licensed and certified State facilities operated by the DDS. Staff at developmental centers currently provide 24-hour, direct-care to 3,500 individuals with developmental disabilities. The Governor's Budget proposes $690.1 million ($370.3 million General Fund) and 7,883.8 personnel years to carry out this program in 2004-05.

Improving Accountability and Service Delivery

The United States Supreme Court's 1999 *Olmstead* decision and the State's Lanterman Act both support transitioning individuals with developmental disabilities from large institutions into community-based settings. In many instances, former developmental center residents experience an improved quality of life and better integration into their communities. However, without careful planning and a long-term strategy, an individual's transition can be more difficult than necessary.

Long-Term Strategy for Developmental Centers—Establishing a fiscally viable program is even more critical as the developmental center population continues to decline and the community's capacity to support individuals with significant medical needs expands. The system must be prepared to facilitate people's movement into more integrated community-based settings, while

Key Audit Findings—Developmental Centers



- General Fund expenditures have increased $121.9 million, or 49 percent, between 1998-99 and the 2003 Budget Act.
- Funding growth since 1998-99 is attributable to increased utilization of services and costs associated with direct care and treatment.
- The average cost per resident rose from $124,000 in 1998-99, to $205,000 in 2004-05.
- The cost of providing care in large State-owned and operated facilities has become increasingly expensive and the State also faces significant capital improvement costs if these facilities remain in operation.
- Opportunities exist to improve the lives of individuals with developmental disabilities and to contain costs by transitioning people out of developmental centers into community-based settings as appropriate.

simultaneously recognizing that there is a limit to the amount of taxpayer funding available for these services.

As part of the overall strategy to define a manageable service delivery system, the Administration will revisit the issue of developmental center closure. The Agnews Developmental Center closure plan, due to the Legislature April 1, 2004, will begin to address the long-term policy for the developmental center system. Individuals can experience a better quality of life at lower costs in more fully integrated and less restrictive community-based settings. Although it cannot happen immediately, the Administration is committed to enhancing the existing system of community-based services to a level where hopefully large State-run institutions are no longer necessary and as many individuals as appropriate can live in their communities.

Increased Contracting for Non-Direct Care Services—The Administration proposes that developmental center food services be provided through contract, to produce more cost-effective and higher-quality service for developmental center residents. The State currently contracts out for janitorial services at the developmental centers and this proposal expands upon current practice. This action will require legislative change and is consistent with other statewide efforts to increase effectiveness and efficiency by contracting for appropriate services.

Department of Alcohol and Drug Programs

Functions of the Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs oversees a variety of alcohol and drug treatment and prevention programs, including Drug Courts, Drug Medi-Cal, and the Substance Abuse and Crime Prevention Act. The Administration is committed to supporting programs with proven outcome-based results that encourage healthy communities. The Governor's Budget includes $597.8 million ($237.8 million General Fund), a net increase of $5.1 million ($2.4 million General Fund) above the 2003 Budget Act for substance abuse prevention programs.

Improving Accountability and Service Delivery

Performance Partnership Grants—The Governor's Budget includes an increase of $260,000 federal funds to collect outcome data as part of the federal government's Performance Partnership funding process. Under the current system, there are few performance measure targets or specific outcome requirements. By October 2004, California will be required to collect data in "core" indicator areas and implement a continuous quality improvement framework to assess the State's performance against objectives developed by the federal government in consultation with the states.

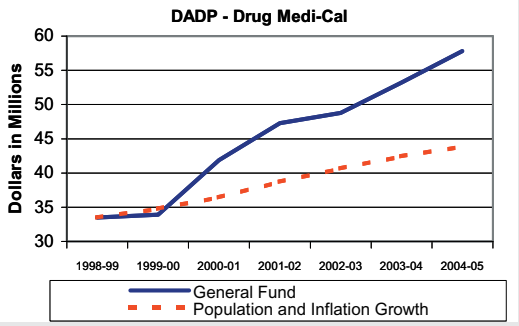
Program Enhancements and Other Budget Adjustments

Drug Medi-Cal—An estimated 67,000 individuals will receive substance abuse treatment services in 2004-05. Services provided include perinatal treatment, narcotic treatment, and outpatient drug free therapy. Because these programs may prevent more severe health and legal problems, the Governor's Budget includes an increase of $3.1 million General Fund above the 2003 Budget Act for Drug Medi-Cal services. As part of the Administration's overall strategy to provide all services within the limits of available resources, rates for these services will be maintained at current levels.

Screening, Brief Intervention, Referral, and Treatment (SBIRT) Program—The State received a $3.5 million federal grant for the new SBIRT program. Brief intervention and treatment can often be an effective method for working with casual drug users to prevent future substance abuse. The SBIRT

Key Audit Findings—Drug Medi-Cal

- Expenditures have grown by $19.1 million, or 54 percent between 1999-00, when the program began, and the 2003 Budget Act.
- Funding increases since 1998-99 can be attributed primarily to caseload growth.
- There are few outcome measures for this program available at this time.



program relies on routine screens of a large number of patients in medical settings, and then immediately delivers brief interventions and treatments during medical visits. Funding will be allocated to selected counties and outcome data will be reported to the Department.

Department of Rehabilitation

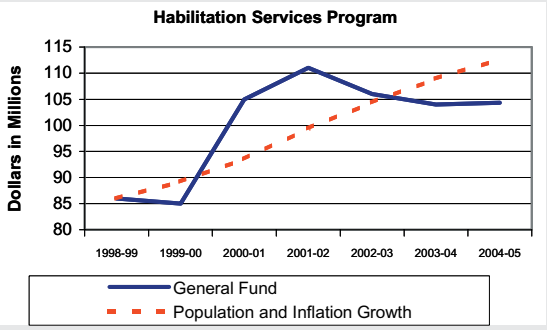
Functions of the Department of Rehabilitation

The Department of Rehabilitation (DOR) is responsible for assisting people with disabilities, particularly those with the most significant disabilities, to obtain and retain employment and to maximize their ability to live independently in their communities. The Governor's Budget proposes $350.6 million ($44.2 million General Fund) and 1,864 personnel years to carry out the DOR's programs in 2004-05.

Program Enhancements and Other Budget Adjustments

Vocational Rehabilitation Services Program—The Administration has demonstrated its strong support for persons with disabilities by providing sufficient funding for continuous service to the Most Significantly Disabled and Significantly Disabled. The Governor's Budget includes $167 million ($23.9 million General Fund) to continue services to an estimated 79,624 consumers. Through the DOR's service priority system, the Order of Selection, the Administration proposes to continue to serve the Most Significantly Disabled category, as well as applicants in the Significantly Disabled category.

Key Audit Findings—Department of Rehabilitation



- The Habilitation Services Program (HSP) budget increased by $24.7 million ($18.4 million General Fund), or 25 percent, from 1998-99 to 2003-04.
- The HSP will be transferred to the DDS effective July 2004.
- Growth is attributable to caseload, increases in the job coach and provider rates, and a wage pass-through.
- Because clients are working more hours, job-coaching hours have increased by 21 percent since 1998-99, resulting in increased program costs.
- While the majority of clients are served in sheltered settings, the number of clients working in the community increased by 1,383, or 22 percent, from 1998-99 to 2003-04.

Office of Statewide Health Planning and Development

Functions of the Office of Statewide Health Planning and Development

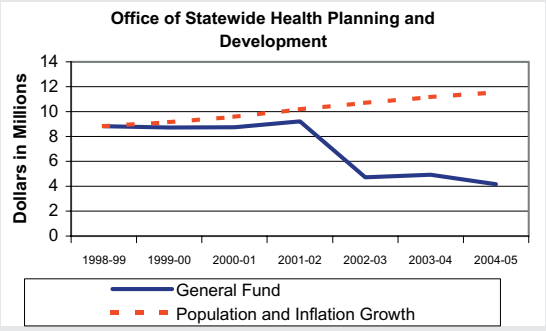
The Office of Statewide Health Planning and Development (OSHPD) is responsible for helping California's health care systems meet the current and future health needs in the State. The OSHPD ensures health care facilities are capable of continued operation in the event of a disaster and improves delivery of and accessibility to health care in the State. The Governor's Budget proposes $58.6 million ($4.2 million General Fund) and 388 personnel years to carry out the OSHPD's mission in 2004-05.

Program Enhancements and Other Budget Adjustments

Health Facility Building Plan Approval— The Facilities Development Division is responsible for overseeing all aspects of general acute care hospital, psychiatric hospital, and multi-story skilled nursing home and intermediate care facility construction in California to ensure the facilities are safe and available to provide care in the event of a major disaster. The Division manages these responsibilities by developing building standards, approving building plans, and observing construction to ensure the facilities meet State and federal standards. A statutory fee is charged to health facilities at the time of plan submission, which is deposited in the Hospital Building Fund, to support the activities of the Division. The Governor's Budget provides a total of $27.6 million and 193 personnel years. To provide timely approval of building plans for the Division and avoid costly construction delays, the Governor's Budget reflects the addition of 44 personnel years and $5.4 million Hospital Building Fund for increased Division workload.

Health Care Professionals for Medically Underserved Areas—In order to provide support to persons in medically underserved areas, the Administration is continuing scholarships and loan repayment grants to students and practicing healthcare professionals who agree to practice in these areas of the State. The Governor's Budget provides a total of $4.1 million for scholarships and loan repayment grants. The Governor's Budget includes an additional $650,000 Registered Nurse Education Fund to in-

Key Audit Findings—Office of Statewide Health Planning and Development



- The OSHPD budget decreased by $191.1 million ($4.3 million General Fund), or 78 percent, from 1998-99 to the 2003 Budget Act.
- The major decrease in special fund expenditures reflects the removal of $181.4 million in special funds due to a change in accounting practices and the treatment of defaulted loans.

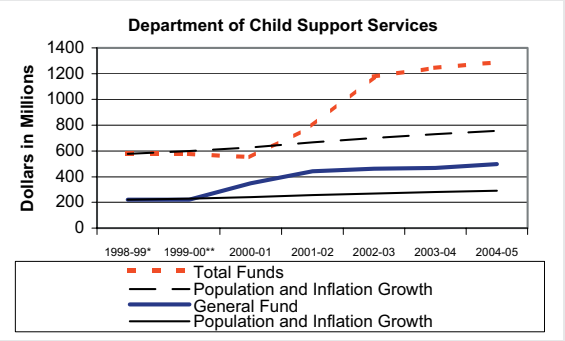
crease the scholarship and loan repayment amounts awarded to registered nurses and registered nursing students. In addition, the Administration for the first time is providing support for licensed mental health practitioners of $206,000 Mental Health Practitioner Education Fund for loan repayment awards, and $131,000 Vocational Nurse Education Fund for scholarships and loan repayments for vocational nurses and vocational nursing students. All awardees from these programs must agree to serve a minimum of one year in a medically underserved area of California.

Department of Child Support Services

Functions of the Department of Child Support Services

The Child Support Program promotes the well-being of children and the self-sufficiency of families by delivering child support establishment and collection services that assist parents in meeting the financial, medical, and emotional needs of their children. To provide enhanced fiscal and programmatic direction and oversight of child support enforcement activities, Chapters 478 and 480, Statutes of 1999, established the Department of Child Support Services (DCSS). These measures authorized the implementation of a single, statewide child support system comprised of local child support agencies under the supervision of the new department. The DCSS

Key Audit Findings—Department of Child Support Services



- Expenditures increased by $605.1 million ($247.8 million General Fund), or 105 percent, from 1998-99 to the 2003 Budget Act.
- The increase in General Fund includes $208.6 million for payment of the Alternative Federal Penalty, which is assessed by the federal government because of California's failure to implement a single, statewide child support automation system by the federal deadline. Exclusive of the Alternative Federal Penalty, all other child support program costs have increased by $39.2 million General Fund, or 17.7 percent, since 1998-99.
- Collections distributed to families and to reimburse federal, State, and local governments for assistance costs increased from $1.6 billion in 1998-99 to an estimated $2.5 billion in 2003-04, or 54 percent. Over the same period, General Fund revenues (reimbursement for assistance costs) increased from $238.3 million to $355 million, or 49 percent.

assumed responsibility for child support enforcement activities in January 2000.

The DCSS is designated as the single State agency to administer the statewide program to secure child, spousal, and medical support, and determine paternity. The primary purpose is the collection of child support payments for custodial parents and their children. The Governor's Budget proposes approximately $1.3 billion ($499 million General Fund) and 320 personnel years for this purpose.

Program Administration

- **State Administration—**The Governor's Budget proposes total expenditures of $36 million General Fund for state administration of the program. Departmental staff ensure a more effective program through expanded State-level direction and supervision of local child support agencies. Specific mandates require increased oversight of local program and fiscal operations.

- **County Administration—**The 2004-05 Governor's Budget proposes $193.3 million General Fund to fund local agency administrative costs. While this represents a reduction from the amount derived from the methodology prescribed in statute to support local agency costs, it generally provides the same level of funding for local program expenditures that was provided in 2003-04.

Child Support Collections

The Child Support Program establishes and enforces court orders for child, spousal, and medical support from absent parents on behalf of dependent children and their caretakers. For display purposes only, the Governor's Budget reflects the total collections received, including payments to families and collections made in California on behalf of other states. The General Fund share of assistance collections is included in statewide revenue projections.

Child support collections for 2004-05 are projected to be $2.4 billion ($364.5 million General Fund), an increase of $205 million ($52.5 million General Fund) above the 2002-03 actual collections of $2.2 billion ($312 million General Fund). The 2003-04 projections reflect an increase in the collections of $11 million General Fund compared to the 2002 May Revision projections, which is attributable to the anticipation of increased child support collections as the result of the Collections Enhancement initiative. In general, collections to reimburse governments for public assistance costs continue to decline as the child support caseload shifts from custodial parents who receive public assistance to those who have never, or no longer receive public assistance.

Child Support Automation

Chapter 479, Statutes of 1999, designated the Franchise Tax Board as the agent of the DCSS for the procurement, development, implementation, and maintenance and operation of the California Child Support Automation System (CCSAS). The State is responsible for developing and implementing the CCSAS and transitioning all counties onto this new system. In June 2003, the State entered into a contract with IBM Global Services to develop and implement the Child Support Enforcement component of the CCSAS. The State expects to have the new system completed by 2008-09.

Other Budget Adjustments

- **County Share of the Alternative Federal Penalty—**As a result of California's delay

in implementing a single, statewide automated system, the federal government has levied significant federal penalties against the State. In 2003-04, the federal penalty assessment is estimated to be $195 million. Counties will pay 25 percent of the penalty in 2003-04, which offsets $48.7 million in General Fund costs. This sharing ratio is consistent with that required for other social services programs. The Administration proposes that counties continue to pay 25 percent of the penalty in 2004-05 and future years. The county share of the penalty in 2004-05 would be $55 million.

- **County Share of Child Support Collections—**It is proposed that the county share of child support collections be eliminated, and the dollars remitted as General Fund revenue in lieu of requiring further reductions to the Child Support Program. This will result in additional General Fund revenues of $39.4 million, which are included in the revenue projections noted above.

California Department of Aging

Functions of the Department of Aging

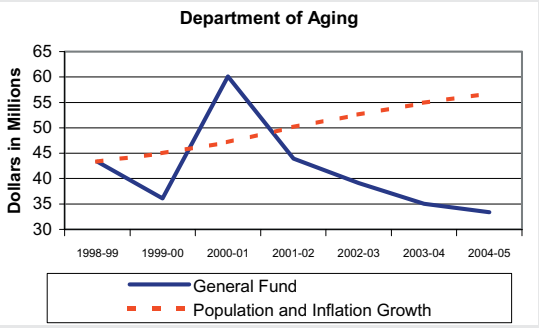
The Department of Aging is responsible for developing systems of home and community-based services that maintain individuals in home-like environments; developing, coordinating, and using resources to meet the long-term care needs of older individuals; and working with Area Agencies on Aging to manage federally and State-funded services at the community level. The Governor's Budget proposes $185.3 million ($33.4 million General Fund) and 123 personnel years to carry out the Department's programs in 2004-05.

Improving Accountability and Service Delivery

Long-Term Care Ombudsman Program— The Administration has demonstrated its strong support for quality of care provided to nursing home residents by proposing additional funding to expand the Long-Term

Key Audit Findings—California Department of Aging

- The Department of Aging budget increased by $38 million, or 26 percent, from 1998-99 to the 2003 Budget Act. However, the General Fund support decreased by $7.9 million, or 19 percent, while federal funds have increased $39 million, or 39 percent.



- The overall spending growth can be attributed to federal fund expansions in the Supportive Services and Centers program.
- The General Fund spike in 2000-01 was related to a one-time augmentation of $20 million for a long-term care innovation grant program to implement and expand community-based alternatives to nursing home care.

Care Ombudsman Program. The Governor's Budget reflects total funding of $12.3 million, an increase of $2.3 million in federal Medicaid reimbursements. This funding will enable the Long-Term Care Ombudsman Program to enhance the State's presence in approximately 6,400 residential care facilities for the elderly.

Block Grant—The Administration proposes to convert State support for aging programs to a block grant and reduce General Fund support by 5 percent ($1.7 million General Fund). The block grant is expected to improve the efficiency of administering the various aging programs that serve the elderly. The block grant will provide more flexibility to utilize grant resources to better match local priorities and needs.

Department of Social Services

California Work Opportunity and Responsibility to Kids

Functions of the CalWORKs Program

The CalWORKs program is California's version of the federal Temporary Assistance for Needy Families (TANF) program, and replaced the Aid to Families with Dependent Children (AFDC) program on January 1, 1998. The CalWORKs program is California's largest cash-aid program for children and families, and is designed to provide temporary assistance to meet basic needs (shelter, food, and clothing) in times of crisis. While providing time-limited assistance, the program also promotes self-sufficiency by establishing work requirements and encouraging personal accountability. The program recognizes the differences among counties and affords them maximum program design and funding flexibility to better ensure successful implementation at the local level.

Total CalWORKs expenditures of $6.4 billion are proposed for 2004-05, including TANF and maintenance-of-effort (MOE) countable expenditures. The amount budgeted includes $4.7 billion for CalWORKs program expenditures within the DSS budget, $1.5 billion in other programs, and $158.4 million for a CalWORKs program reserve. Other programs include the Statewide Automated Welfare System, Child Welfare Services (CWS), California Food Assistance Program (CFAP), State Supplemental Payment, Foster Care, State Department of Education child care, California Community Colleges child care and education services, Department of Child Support Services (DCSS) disregard payments, the DDS, and county expenditures (see Figure HHS-15). Caseload growth is continuing to flatten after many consecutive years of decline. The revised caseload projections are 479,000 cases in 2003-04, and 481,000 cases in 2004-05.

CalWORKs Employment Services—The Administration continues to invest in employment services, which allows recipients to move off of aid and into sustainable employment. The Governor's Budget includes an augmentation of $191.9 million for employment services in 2003-04 and 2004-05. In addition, funding for employment services and administration in 2003-04 is increased by $47.2 million above the 2003 Budget Act appropriation to fully fund projected caseload. This funding would enable counties to provide services tailored to their individual needs to move CalWORKs recipients from public aid to employment, which is the core of the CalWORKs program.

Total TANF Reserve—The Governor's Budget includes a $158.4 million TANF reserve to be available for unanticipated

needs. A reserve of this magnitude is needed to mitigate the impact of several CalWORKs program pressures, including the reauthorization of the federal TANF program. While Congress and the President will consider several key policy changes, federal reauthorization legislation introduced to date would significantly increase the work participation rate requirements. Substantial investments in child care and employment services would be needed in order to meet increased participation rate requirements. Failure to meet these increased requirements would result in significant federal penalties. Other CalWORKs program pressures include costs resulting from a federal audit of AFDC grant overpay-

FIGURE HHS–15

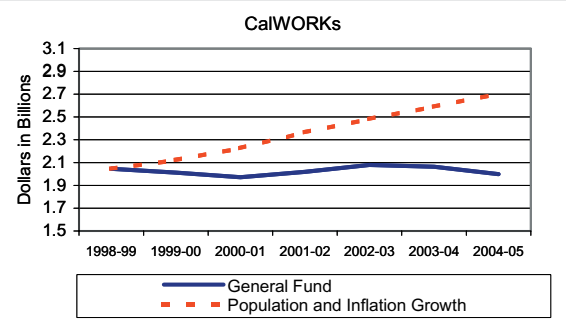
2004-05 CalWORKs Program Expenditures [1]
(Dollars in Millions)

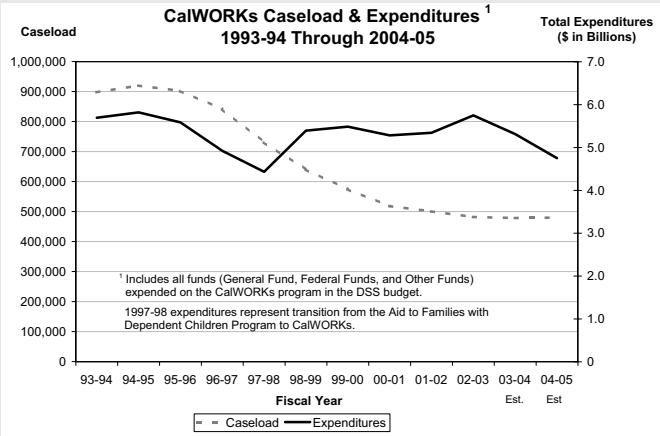
CalWORKs Program:	2004-05
In DSS Budget:	
Assistance Payments	$2,712
Employment Services	1,033
County Administration	292
DSS Child Care	495
Kin-GAP	77
Juvenile Probation	67
Tribal TANF	43
DSS Administration	27
Subtotal	**$4,746**
Other CalWORKs Expenditures:	
Statewide Automated Welfare System	126
Child Welfare Services (CWS)	253
CWS Redesign Program Improvement Plan	18
California Food Assistance Program	4
State Supplementary Payment Program	10
Foster Care	56
State Department of Education Child Care	749
California Community Colleges Child Care	15
CCC Education Services	20
DCSS Disregard Payments	29
Department of Developmental Services	48
County Expenditures	148
Subtotal	**$1,475**
CDE/DSS Child Care Holdback	**$52**
General TANF Reserve	**158**
Total CalWORKs Expenditures	**$6,431**

[1] Detail may not add to totals due to rounding.

Key Audit Findings—CalWORKs Program

- General Fund costs since 1998-99 have remained relatively flat as the State continues its policy to fund the program at the federally-required level. However, caseload is flattening after many years of decline and, without program changes to move more families from welfare-to-work and control costs, General Fund costs would significantly exceed the federally-required level beginning in 2004-05.
- California's caseload has not dropped as much as 20 other states.
- California's work requirements and time limits are more lenient than 20 other states.
- Options for controlling costs include:
  - ☐ Suspending the CalWORKs COLA.
  - ☐ Transferring TANF funds to achieve General Fund savings.
  - ☐ Reforming the CalWORKs program to move more recipients off of aid and into employment.





ment collections that occurred between 1996 and 2001.

Improving Accountability and Service Delivery

California's CalWORKs Program has made important progress in moving recipients from reliance on public assistance to work and self-sufficiency. Since CalWORKs' inception in January 1998, caseload has declined by nearly 35 percent and the number of working recipients has increased from less than 20 percent in 1996 to nearly 50 percent in 2002. The Administration seeks to maintain critical support and services for CalWORKs eligible families, while proposing to further strengthen the program through a greater emphasis on work participation and personal responsibility. Towards that end, the Administration's proposal will require more immediate and intensive job search efforts, require recipients to be involved in specific work-related activities, provide stronger

penalties for non-complying individuals, and reduce grant levels for non-working families who have exceeded their 60-month time limit.

In order to maintain the essential elements of the CalWORKs program, and to stay within the available federal and state maintenance-of-effort funds, additional changes will eliminate Temporary Assistance for Needy Families (TANF) funding for county juvenile probation services, adjust State funding for Tribal TANF programs to meet the actual caseloads being served, eliminate the 2004-05 CalWORKs cost of living adjustment (COLA), and reduce the basic CalWORKs grant. The changes will result in combined savings of $520.9 million. The objectives of the CalWORKs reforms include:

- Requiring adults to look for work as soon as they apply for aid will lead to employment sooner and minimize reliance on public assistance. This will allow California to maximize available funding and ensure the largest number of recipients is provided with essential services.

- Requiring more specific work-related activities will promote earlier employment, reduce reliance on public assistance, and enhance California's ability to meet increased federal work participation requirements that are included in the TANF reauthorization proposals currently before Congress.

- Strenthening the penalty for failing to meet program requirements will reinforce the principle that parents have a responsibility to take advantage of the services designed to help them become self-sufficient and self-supporting and, failing participation, to be held accountable for their actions.

- Reducing safety net grants to non-working families who have exceeded their 60-month time limit will provide an incentive to parents to seek and secure work, while still providing a basic level of assistance for support of children in the home.

- Reducing CalWORKs grants will bring California grant levels more in line with other large states and provide funding to maintain welfare-to-work and supportive services necessary for moving adults into the workforce.

- Prioritizing available funding for core services will allow needy families to access welfare-to-work services that promote self-sufficiency.

- These proposals would not affect program eligibility and would avoid further grant reductions for families who are complying with program requirements.

Tightening Work Participation Requirements

- **Enhance Work Participation Requirements—**This would require families to participate at least 20 hours per week in core work activities within 60 days of the receipt of aid. In addition to employment, core work activities would primarily include activities which would lead directly to employment such as subsidized employment and on-the-job training. Adults would be required to participate in other approved activities as necessary to meet the remainder of the 32 hour-per-week work participation requirement. Currently, recipients are not required to participate in subsidized or unsubsidized employment until they have been on aid for 18 months.

- **Reduce Sanctioned Grants 25 Percent After One Month of Noncompliance—** This would reduce the child-only grant by 25 percent for families that fail to meet work participation requirements within one month of being sanctioned. Thirty-seven other states totally eliminate this grant for non-compliant families.

- **Reduce Safety Net Grants by 25 Percent—**Currently, once a recipient has been on aid for the maximum amount of time allowed by the federal government, or 60 months, cash assistance is reduced by the adult portion of the grant. This proposal would reduce by 25 percent the child-only safety net grant that is provided to non-working families that have reached their lifetime time limit. California and New York are the only large states to provide this safety net grant.

Prioritize Funding to Move Recipients into Sustainable Employment

- **Suspend CalWORKs Grant COLA—** This would maintain grants at their current levels. In addition to the grant, the family typically would be eligible for employment services, child care, Food Stamps, and Medi-Cal. In addition, the CalWORKs assistance payment structure continues to reward working families by allowing them to retain earnings in excess of twice the grant amount and still remain enrolled in the program.

- **Reduce Funding for Juvenile Probation—**This would reduce funding for services to at-risk youth by $134.3 million, leaving $67.1 million to reflect three months of funding for prevention, intervention, supervision, treatment, and incarceration programs for at-risk youth and juvenile offenders, allowing this program to expire in October 2004. In addition to the $67.1 million in federal TANF funding for county probation departments, the Budget includes $100 million General Fund for Juvenile Justice Crime Prevention Act grants.

- **Eliminate Discretionary Programs—** This would eliminate funding for three small discretionary programs for low-income women requiring alcohol and other drug treatment services ($2 million), at-risk youth ($1.5 million), and Native Americans requiring mental health and substance abuse services ($2.7 million). These individuals would still be able to receive similar services through county CalWORKs programs.

- **Reduce Funding for Tribal Programs—** This would reduce by $30.5 million the amount of State funding provided to the tribal entities to reflect declining tribal caseload.

Mid-Year Spending Reduction Proposal— The Administration has proposed Special Session legislation to reduce CalWORKs grant levels by 5 percent, which would result in savings of $45.3 million in the current year and $179.7 million in the budget year, assuming an April 1, 2004, implementation date. The Administration also proposes to redirect $41.1 million in federal TANF Block Grant funds to the In-Home Supportive Services (IHSS) program in 2003-04 and $119.5 million in federal TANF funds to the CWS program, the Foster Care program, and the DDS budget to offset General Fund costs in 2004-05.

Supplemental Security Income/ State Supplementary Payment

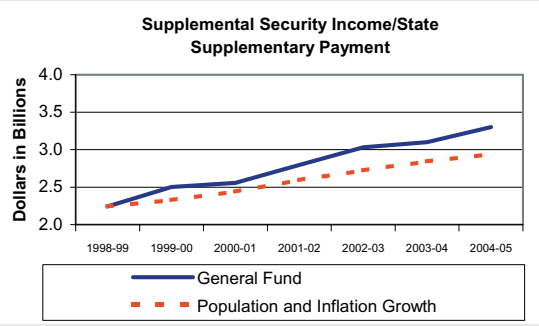
Functions of the SSI/SSP Program

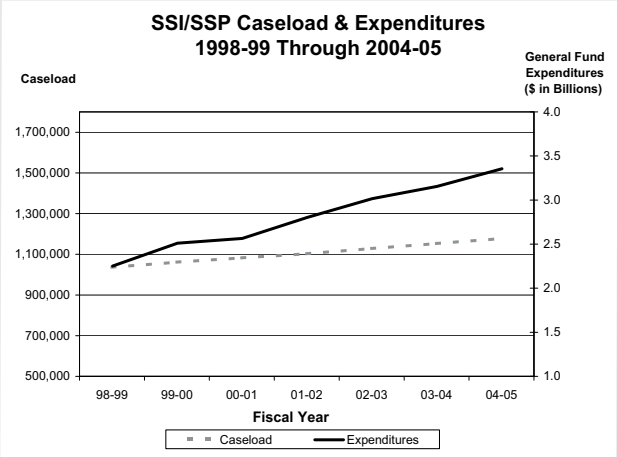
The federal Supplemental Security Income (SSI) program provides a monthly cash benefit to eligible aged, blind, and disabled persons who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment (SSP) grant. These cash grants assist recipients with basic needs and living expenses. The federal Social Security Administration administers the SSI/SSP program, making eligibility determinations and grant computations and issuing combined monthly checks to recipients.

The Governor's Budget proposes $3.3 billion General Fund for the SSI/SSP program in 2004-05. This represents a 1 percent decrease from the 2003 Budget Act. The caseload in this program is estimated to be 1.2 million recipients in 2004-05, a 2.1 percent increase over the 2003-04 projected level. The SSI/SSP caseload consists of 30 percent aged, 2 percent blind, and 68 percent disabled persons.

Key Audit Findings—Supplemental Security Income/ State Supplementary Payment

- The General Fund expenditures in the SSI/SSP program grew by $1.1 billion, or 51 percent, from 1998-99 to the 2003 Budget Act.
- Program growth is due primarily to the provision of statutory COLAs. Caseload grew only 11 percent from 1998-99 to the 2003 Budget Act.
- Options for controlling costs include:
  - Suspend January 2005 State COLA.
  - Do Not Pass-Through the January 2005 federal COLA.
  - Reduce grants to minimum levels required by the federal government.





Improving Accountability and Service Delivery

Suspension of Cost-of-Living Increases

- The SSI/SSP caseload grew by only 11 percent from 1998-99 to the 2003 Budget Act, compared to the much higher growth in the General Fund expenditures for the program during the same period. Cost growth in this program is primarily due to the provision of statutory COLAs.

- Given the State's severe fiscal constraints, and to control the unsustainable costs in the SSI/SSP program, the Administration proposes that the January 2005 State COLA of 2.8 percent be suspended, and the pass-through of the January 2005 federal COLA of 1.8 percent be withheld for General Fund savings of $134.7 million in 2004-05 and $269.4 million annually thereafter.

- The overall grant payment standards will not decrease and will remain at the current levels of $790 for an individual and $1,399 for a couple. These grant levels reflect a 2.1 percent federal COLA that was passed-through effective January 1, 2004. As reflected in Figure HHS-16, California continues to provide the highest level of cash grants to SSI/SSP recipients among the ten most populous states.

Mid-Year Spending Reduction Proposal— The SSI/SSP program budget also reflects a reduction of $5.5 million due to the proposed elimination of the California Veterans Cash Benefit Program, for certain veterans who no longer reside in the United States. This reduction was included in the December 2003 Mid-Year Spending Reduction Proposals.

FIGURE HHS–16

Comparison of the 2003 SSI/SSP Maximum Payments[1] for the Ten Most Populous States

	Independent Living Arrangement			
	Aged and Disabled		Blind	
State	Individuals	Couples	Individuals	Couples
California	$778	$1,382	$842	$1,602
New York	639	933	639	933
New Jersey	583	854	583	854
Pennsylvania	579	873	579	873
Michigan	566	850	566	850
Florida[2]	552	829	552	829
Georgia[2]	552	829	552	829
Texas[2]	552	829	552	829
Illinois[3]	552	829	552	829
Ohio[2]	552	829	552	829

[1] The January 2003 federal maximum payments are $552 per individual, and $829 for a couple.
[2] Reflects the federal SSI maximum payment only, as these states do not provide supplemental payments for an independent living arrangement.
[3] Illinois does not have a standard SSP allowance. Any supplements are based upon individual needs and circumstances.

In-Home Supportive Services

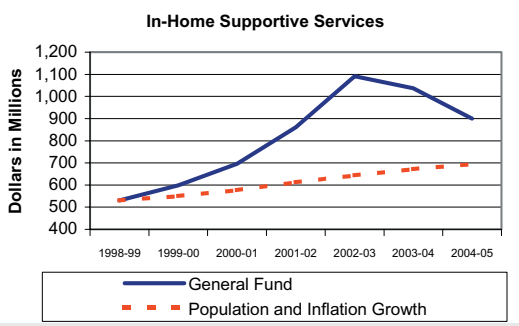
Functions of the IHSS Program

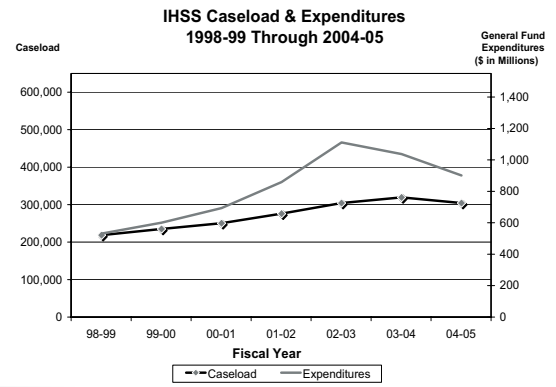
The IHSS program provides support services, such as house cleaning, transportation, personal care services, and respite care to eligible, low-income aged, blind, and disabled persons. These services are provided in an effort to allow individuals to remain safely in their homes and prevent premature institutionalization.

The Governor's Budget proposes $899.4 million General Fund for the IHSS program in 2004-05. This represents a 29.4 percent decrease from the 2003 Budget Act. In the absence of programatic changes to reduce costs, costs are projected to increase 9.4 percent above the 2003 Budget Act. The caseload in this program is estimated to be 302,000 recipients in 2004-05.

Key Audit Findings—In-Home Supportive Services

- General Fund expenditures in the IHSS program grew by $743.3 million, or 140 percent, from 1998-99 to the 2003 Budget Act.
- Program growth is due primarily to increases in authorized service hours, and the wage and benefit levels up to which the State provides a share-of-cost. Caseload grew by 52 percent from 1998-99 to the 2003 Budget Act, while expenditures grew by almost three times as much.
- The State has limited control over provider wages because counties negotiate contracts and the State funds a majority of the costs.
- Options for controlling costs include:
  - ☐ Reduce the level up to which the State provides a share-of-cost for IHSS provider wages and benefits to the State minimum wage.
  - ☐ Maximize enrollment of clients on federally funded services by eliminating State funding for IHSS provided by family members.





Improving Accountability and Service Delivery

The IHSS caseload grew by 52 percent from 1998-99 to the 2003 Budget Act, compared to the much higher growth in the General Fund expenditures for the program during the same period. The primary reason for these cost increases has been an increase in IHSS provider wage and benefit costs. Given the State's severe fiscal constraints, and to control the unsustainable costs in the IHSS program, the Administration proposes to reduce the cost of providing services in the IHSS program to avoid further, more significant reductions to services.

- **Quality Assurance—**Based on State-level case reviews conducted for a number of years, up to 25 percent of all paid services under the IHSS program may be unnecessary or not actually provided. The Administration intends to submit a proposal in the spring to improve the quality of IHSS need assessments and reduce over-authorization of service hours.
- **Reduce State Funding for Worker Wages and Benefits—**The Admini-

stration proposes to reduce the level up to which the State provides a share-of-cost for IHSS provider wages and benefits to the State minimum wage. This proposal would also reduce the wage component of contract provider rates to the minimum wage. Currently, the State shares up to $10.10 per hour in provider wages and benefits, and up to the Maximum Allowable Contract Rates for contract providers. This reduction would be phased in as existing contracts with labor unions and private contractors expire. This proposal would result in General Fund savings of $98 million in 2004-05 and $130.7 million annually thereafter.

- **Make Optional the Employer-of-Record (EOR) Requirement—**The Administration proposes to make the EOR requirement optional to counties, and eliminate the State-share of funding for certain collective bargaining related activities, for General Fund savings of $987,000 in 2004-05, and $1.3 million annually thereafter. Currently, counties are required to establish an EOR to serve as the employer of IHSS providers for the purposes of collective bargaining over wages and benefits. Most counties have established public authorities to fulfill this requirement.

- **Make Optional the Advisory Committees Requirement—**The Administration proposes to make optional the requirement that each county establish an Advisory Committee for General Fund savings of $1.2 million in 2004-05 and $1.6 million annually thereafter. Currently, counties are required to maintain IHSS Advisory Committees to provide recommendations to the board of supervisors of a county on administration of the program.

In addition, the Administration proposes to require immediate family members to meet more of the responsibility and/or costs for caring for disabled and elderly persons:

- **Eliminate Domestic and Related IHSS Program Services in Shared Living Situations—**The Administration proposes to eliminate domestic and related services for recipients who live with their family members, when the need for these services is provided in common with other household members. These services include housecleaning, meal preparation, meal clean-up, laundry, food, shopping, and errands. This proposal would not affect the personal care and paramedical services which these recipients receive. This proposal would result in General Fund savings of $26.3 million in 2004-05 and $35.1 million annually thereafter.

- **Mid-Year Spending Reduction Proposal—**The Administration has proposed to eliminate the State-only Residual Program, which provided payments to parent and spouse caregivers, among other things. Many of these clients, however, will be eligible for the federally-funded portion of the IHSS program. This results in General Fund savings of $88.8 million in 2003-04 and $365.8 million General Fund in 2003-04 and ongoing.

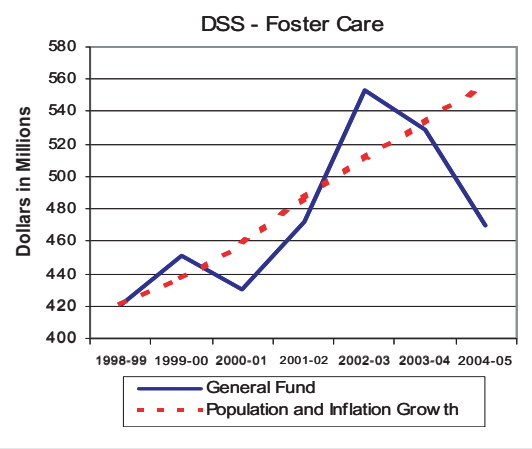
Foster Care Program

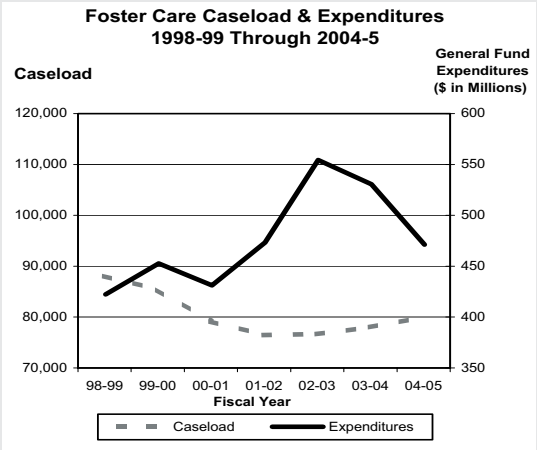
Functions of the Foster Care Program

The Foster Care Program provides cash payments for out-of-home care for children that have been removed from their own families due to abuse or neglect. The Governor's Budget includes $1.1 billion ($470.1 million

Key Audit Findings—Foster Care Program

- General Fund costs for this program have grown by $95.7 million, or 23 percent, from 1998-99 to the 2003 Budget Act. However, caseload declined by 9 percent during the same period.
- Program growth is attributable to (1) COLAs, (2) rate increases for Group Homes, and (3) increased placements in higher-cost FFAs and Group Homes.
- Options for controlling costs include:
  - ☐ Restructure Foster Care Rates.
  - ☐ Establish Performance-Based Contracts for Foster Care.





General Fund) for foster care grants and administration.

Improving Accountability and Service Delivery

General Fund expenditures in the Foster Care Program have grown by 23 percent from 1998-99 to the 2003 Budget Act, while the program caseload has declined by 9 percent during the same period. The primary reason for the cost growth has been increased placements in higher-cost Foster Family Agencies (FFAs) and Group Homes.

In addition, the State failed a total of 12 out of 14 outcome measures in a federal review of California's CWS program conducted last year. Failure to improve these outcomes would result in significant federal penalties and the potential loss of federal funding for child welfare programs.

The Governor's Budget proposes program reforms to promote the care of more children in a family home environment and to shorten the period of time children spend in foster care, particularly in more restrictive placements such as group homes. These proposals are expected to save approximately $20 million in 2004-05 and increasing amounts in subse-

quent years. The specifics of these proposals, including proposed legislation and refined savings estimates, will be developed in further detail and included in the 2004 May Revision. Potential proposals include:

- **Establish Performance-Based Contracts for Foster Care—**This proposal would require the higher-cost, higher-growth foster care providers (FFAs and Group Homes) to operate under performance-based contracts to require them to meet federal and State outcome measures, as a condition of payment.

- **Restructure Foster Care Rates—**This proposal would restructure the rates paid by the State for all foster care facilities to encourage counties to increase the use of less-restrictive, less-costly placements, and to establish a standard statewide rate for other high-cost specialized foster care services and payments.

- **Flexible Funding Waiver—**This proposal would pursue a federal waiver to apply federal foster care funds for flexible child welfare purposes, including prevention of child abuse and neglect, intensive services to keep children with their birth parents, reduce out-of-home placements, and enhance permanency. Federal law currently restricts the use of foster care funds to cover only those costs related to the care and supervision of foster children, thereby inhibiting the State's ability to target these funds to those children and families most in need and to provide preventative services.

The Administration intends to engage stakeholders, constituents, and the Legislature to help facilitate these reform efforts.

Mid-Year Spending Reduction Proposal— Given the State's current fiscal constraints, the Administration proposed legislation to make funding for the Supportive Transitional Emancipation Program contingent on a Budget Act appropriation. This discretionary program provides financial assistance to emancipating foster youth up to age 21 if they are participating in an educational or training program. Although no counties have elected to participate in this program to date, the proposal would result in cost avoidance to the extent that one or more counties elect to participate in the future.

Community Care Licensing

Functions of Community Care Licensing

The Community Care Licensing program licenses and monitors approximately 92,000 community care facilities, which include child day care facilities, children's residential facilities, and elderly residential and day support facilities, and serve approximately 1.4 million clients. The Governor's Budget proposes $124.9 million ($42.2 million General Fund) for licensing activities that promote the health, safety, and quality of life of each person in community care facilities. This is an $11 million ($7 million General Fund), or 9.7 percent, increase from the 2003 Budget Act.

Mid-Year Spending Reduction Proposal—In order to prevent reductions to this vital health and safety program, the Administration proposed a licensing fee increase. Through the existing licensing fee structure, the DSS expects to collect approximately $14 million in the current year, which represents only 40 percent of the General Fund costs of the Community Care Licensing program. The Administration proposes to increase fees for child day care, children's residential, adult care, and senior care facilities annually,

in approximately equal increments over a three-year period, until the General Fund cost of the licensing program is supported entirely by the fees collected. The proposal would also create parity in the fee schedule between large and small residential facilities, and would not affect small foster care providers such as Foster Family Homes. This proposal will result in increased General Fund revenues of approximately $5.8 million in 2004-05.

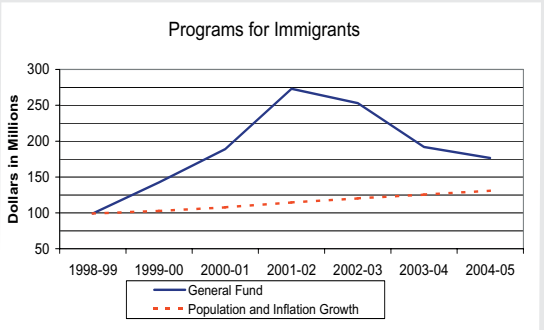
Programs for Immigrants

Functions of Health and Human Services Programs for Immigrants

The State administers a number of discretionary, State-funded programs that provide health and human services to immigrants. These benefits are provided to immigrants who are not covered under related federal programs. These programs include CalWORKs, the California Food Assistance Program (CFAP), the Cash Assistance Program for Immigrants (CAPI), and the HFP.

Key Audit Findings—Programs for Immigrants

- State expenditures in health and human services programs for immigrants have grown by 99 percent, while caseload has decreased by 48 percent from 1998-99 to the 2003 Budget Act.
- Overall, the State provides these services to approximately 44,000 immigrants for a total cost of over $176.6 million annually.



Improving Accountability and Service Delivery

In order to avoid further reductions to, or elimination of, these discretionary, State-funded programs for immigrants, the Administration proposes to restructure and consolidate the following programs and fund them in a single block grant to be provided to counties to provide basic safety net services to this population:

- **CalWORKs Benefits for Recent Documented Immigrants—**Provides cash and job-training benefits to documented immigrants that are barred from the federal TANF program.
- **California Food Assistance Program—**Provides food stamp coupons to documented immigrants who are not eligible for the federal Food Stamp Program.
- **Cash Assistance Program for Immigrants—**Provides cash benefits to elderly or disabled documented immigrants who are not eligible for SSI/SSP cash benefits.
- **Healthy Families Program for Documented Immigrants—**Provides comprehensive health care for low-to-moderate income documented immigrant children.

The Governor's Budget reflects savings of $6.6 million General Fund due to anticipated

efficiencies resulting from this proposal. It is also anticipated that this proposal would provide counties with greater flexibility and better priority setting capability in providing health and human services to immigrants at the local level. Although the Governor's Budget does not reflect a single combined appropriation for these programs, the Administration will develop the proposal in further detail and anticipates including a combined appropriation in the 2004 May Revision.

Mid-Year Spending Reduction Proposal— The Administration has proposed to cap enrollment in a number of discretionary State-funded health and human services programs for immigrants to achieve General Fund savings of $25 million in 2004-05. This proposal included, in addition to the above programs, Medi-Cal non-emergency services for documented and undocumented immigrants.

Health and Human Services Agency Data Center

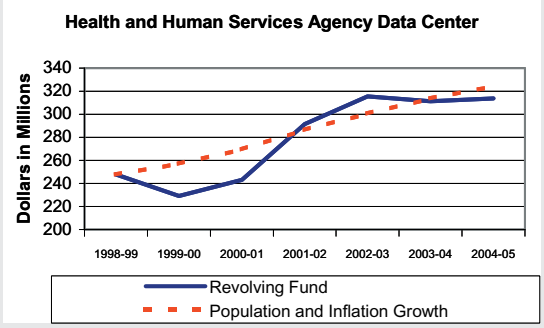
Functions of the Health and Human Services Agency Data Center

The Health and Human Services Agency Data Center (HHSDC), one of the State's three consolidated data centers, provides the Health and Human Services Agency's various departments electronic data processing (EDP) capacity by using shared, centralized resources to minimize equipment and staff duplication. The central processors and peripheral equipment operate 24 hours a day, 7 days a week. Telecommunications network and software support services also are furnished. The HHSDC assists the Agency in identifying potential EDP-related applications and recommending policies on the appropriate use of EDP among client departments. Special project management activities are performed on behalf of the DSS. The HHSDC costs are reimbursed by service users.

The Governor's Budget proposes $311.4 million and 474 personnel years to carry out the HHSDC's programs in 2004-05. For the

Key Audit Findings—Health and Human Services Agency Data Center

- The HHSDC budget increased by $67.1 million, or 27 percent, from 1998-99 to the 2003 Budget Act.
- Pursuant to legislation (Chapter 225, Statutes of 2003), the Administration is considering a reorganization plan to consolidate the HHSDC and the Stephen P. Teale Data Center, effective in fiscal year 2004-05.



HHSDC's primary facility operations, the Governor's Budget includes a net increase of $2.5 million in HHSDC Revolving Fund authority. For the special projects managed by the HHSDC for the DSS, the Governor's Budget proposes a net reduction in expenditure authority of $5.9 million below the 2003 Budget Act.

Improving Accountability and Service Delivery

The HHSDC manages five major automation projects for the DSS. These systems assist in the administration of the CalWORKs, Food Stamps, CWS, and IHSS programs, and further the Administration's goal of providing quality services as efficiently as possible while preventing fraud and reducing long-term costs. The Governor's Budget includes $414.8 million ($149.5 million General Fund) to continue to develop, maintain, and operate these projects.

Statewide Automated Welfare System (SAWS)—The SAWS automates welfare eligibility processes and administrative functions for the CalWORKs, Food Stamp, Medi-Cal, Foster Care, Refugee, and County Medical Services (CMS) programs through the development of the following five systems:

- **Interim SAWS—**This consortium is comprised of 35 counties. The Governor's Budget includes $36.3 million ($13.3 million General Fund) for maintenence and operations (M&O) activities. This represents a decrease of $753,000 ($276,000 General Fund), due to the decreased cost for the new application maintenance contract.

- **Welfare Client Data System—**The Governor's Budget includes $91.6 million ($28.3 million General Fund) to continue the implementation of this system in 18 counties. This represents an increase of $5 million ($2.4 million General Fund), to reflect an overall project delay of ten months. The delay is due to the need to incorporate a number of program changes required by the federal government into the application prior to pilot implementation.

- **Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting (LEADER) System—**The Governor's Budget includes $15.6 million ($3.4 million General Fund) for M&O of this single-county system. This represents an increase of $1.4 million ($309,000 General Fund), due to extending ongoing M&O costs through June 2005 and initiating procurement activities for a new M&O contract due to increased baseline costs.

- **Consortium IV—**The Governor's Budget includes $89.7 million ($26.8 million General Fund) to continue implementation of this system in the remaining four counties. This represents an increase of $35.6 million ($12.8 million General Fund) due to the inclusion of previously deferred scheduled activities.

- **Welfare Data Tracking Implementation Project (WDTIP)—**The SAWS WDTIP allows the four consortia to share CalWORKs time-limit tracking data. The Governor's Budget includes $3.8 million federal funds for the WDTIP. This represents a decrease of $3.3 million due to the completion of the LEADER conversion.

Statewide Fingerprint Imaging System (SFIS)—The SFIS is a database system that detects and reduces multiple-case fraud in the CalWORKs and Food Stamp programs. The Governor's Budget includes

$8.5 million ($8.3 million General Fund) for M&O activities. This represents a reduction of $2.3 million ($2.2 million General Fund) in the current year and a reduction of $2.2 million General Fund in the budget year, resulting from savings due to a redesigned, more efficient computer network.

Electronic Benefit Transfer (EBT)—The EBT system will deliver public assistance benefits to eligible recipients through electronic funds transfer, automated teller machines (ATM), and point-of-sale terminals in retail outlets. Counties are statutorily required to use the EBT system to deliver Food Stamp benefits, and are also permitted to use the EBT system to deliver CalWORKs benefits. When operational, Food Stamp and CalWORKs recipients will be able to access their benefits via ATM-like cards, in lieu of monthly checks or Food Stamp coupons.

The Governor's Budget includes $57.9 million ($14 million General Fund) to continue statewide implementation. This represents a decrease of $7 million ($5.3 million General Fund) below the 2003 Budget Act. This is the result of revised caseload projections that lowered the anticipated number of CalWORKS and food stamp recipients using EBT, and a revised project schedule that now reflects statewide implementation in September 2004 instead of November 2004. Federal law required states to implement an EBT system to deliver Food Stamp Program benefits by October 1, 2002. California applied for a waiver and was granted a 41-month extension in order to complete statewide implementation.

Program Enhancements and Other Budget Adjustments

Case Management, Information, and Payrolling System (CMIPS)—The CMIPS processes eligibility determinations of: (1) IHSS applicants; (2) provides case management services for recipients; (3) calculates IHSS authorized service hours and issues notices of action to recipients for any change in that service level; (4) provides payroll services for individual providers including income tax and other payroll taxes; (5) audits invoices for third-party contract providers; and (6) produces reports for program management. The Governor's Budget proposes $1.7 million ($1.1 million General Fund) to re-evaluate the CMIPS reprocurement strategy. The Administration proposes that this system be migrated to the California Medicaid Management Information System, administered by the DHS, which would result in a higher federal financial participation and savings to the State.

Child Welfare Services/Case Management System (CWS/CMS)—This system automates tracking and reporting information for the CWS, Foster Care, and Adoptions programs. The CWS/CMS, which is fully operational in all 58 counties, assists in the effective administration of the CWS program by enabling social workers to make better decisions for neglected and abused children, allowing social workers to spend more time providing services to clients rather than doing paperwork, and improving statewide information sharing. It also provides the counties with better program management information, facilitates compliance with federal reporting requirements, and provides statewide statistical information.

The Governor's Budget includes $89.5 million ($44 million General Fund) for contract-related costs for system M&O to continue these services. Overall, proposed CWS/CMS M&O funding for 2004-05 is $14.8 million ($7.7 million General Fund) less than the 2003 Budget Act funding level, due to adjustments for anticipated completion of activities to replace servers, software, and workstations statewide in 2003-04.

FIGURE HHS–17

California Children and Families Commission
Estimated Proposition 10 Tobacco Tax Allocations
(Dollars in Millions)

	2003-04	2004-05
Total revenues	$586.0	$584.0
Less:		
Board of Equalization tax collection costs	2.3	1.7
Proposition 99 and Breast Cancer funding offset	21.7	21.7
Net revenues	$562.0	$560.6
County Allocation (80 percent)	449.6	448.5
State Commission Allocation (20 percent)	112.4	112.1
Mass Media Communications (6 percent)	33.7	33.6
Education (5 percent)	28.1	28.0
Child Care (3 percent)	16.9	16.8
Research and Development (3 percent)	16.9	16.8
Unallocated (2 percent)	11.2	11.2
Administration (1 percent)	5.6	5.6

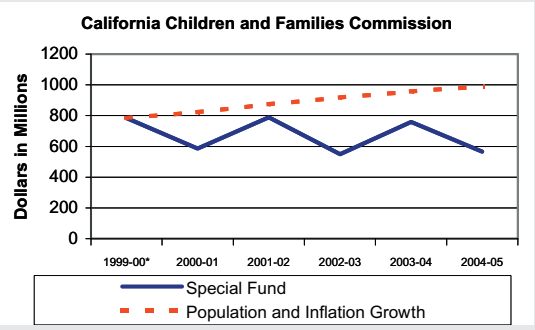
California Children and Families Commission

Functions of the California Children and Families Commission

The California Children and Families Commission (Commission), established by Proposition 10 in November 1998, is responsible for developing a statewide system of information and services to strengthen early childhood development from the prenatal stage to five years of age. Proposition 10 funds result in significant increases in baseline services because these continuously appropriated funds must supplement, not supplant, existing funds. In addition, the State Commission and county commissions working in collaboration may use Proposition 10 funds to leverage new federal funds.

The initiative, through its cigarette and other tobacco product taxes, is currently projected to generate $586 million in 2003-04 and $584 million in 2004-05. Proposition 10 includes provisions which replace the loss of Proposition 99 tobacco tax revenues for health education, research, and breast cancer programs due to the decreased consumption of tobacco products resulting from increased taxes pursuant to Proposition 10. The amounts replaced in 2003-04 and 2004-05 total $21.7 million each year. Proposition 10 provides that 20 percent of funds remaining after the Proposition 99 replacement and tax collection cost are allocated to the State Commission for programs indicated in Figure HHS-17. The initiative also provides that the remaining 80 percent be allocated to county commissions for early childhood development programs including,

Key Audit Findings—California Children and Families Commission



- The Commission's budget increased by $543 million from 1998-99 to the 2003 Budget Act. However, the Governor's Budget reflects a decrease of $235.8 million, or 30 percent, since the Commission's first full year of funding in 1999-00, due to a decline in tobacco tax revenues.
- The Commission was established through a voter-approved initiative, which added a 50 cent-per-pack tax to cigarettes and tobacco products.

but not limited to, health care, child care, education, domestic violence prevention, maternal nutrition, and child abuse prevention.

State-Local Program Realignment

In 1991-92, State-Local Program Realignment restructured the State-county partnership by giving counties increased responsibilities and funding for a number of health, mental health, and social services programs. Realignment also provided an ongoing revenue source for counties by establishing a new one-half cent sales tax and an increase in the motor vehicle license fee (VLF). The one-half cent sales tax is a dedicated funding stream for realignment. The amount of VLF revenue available for realignment is not affected by the 67.5 percent reduction in VLFs that resulted from Chapter 5, Statutes of 2001, because General Fund is provided to backfill these lost VLF revenues.

During 2001-02, the amount of sales tax growth required to be deposited into the Caseload Subaccount was deficient by $123.6 million. This shortfall was partially restored with 2002-03 sales tax growth revenue, which totals $50.4 million for the Caseload Subaccount. The remaining shortfall will be funded from future growth in sales tax revenue pursuant to current State law.

Realignment revenues in 2003-04 are estimated to total $3.8 billion, which represents an increase of $151.3 million compared to 2002-03. The $3.8 billion is comprised of $2.4 billion in sales tax revenues and $1.4 billion in VLF. The VLF amount includes $829.4 million General Fund to backfill for lost VLF revenues, as discussed above. The $151.3 million in sales tax and VLF revenue growth will be distributed to the caseload, County Medical Services Program

FIGURE HHS–18

Governor's Budget
1991-92 State-Local Realignment
2002-03 Estimated Revenues and Expenditures
(Dollars in Thousands)

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	$834,609	$410,081	$983,977	$2,228,667
Vehicle License Fee Account	248,446	1,055,629	39,101	1,343,176
Total Base	**$1,083,055**	**$1,465,710**	**$1,023,078**	**$3,571,843**
Growth Funding				
Sales Tax Growth Account:	—	—	$50,433	$50,433
Caseload Subaccount	—	—	(50,433)	(50,433)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	4,569	7,117	833	$12,519
Total Growth	**$4,569**	**$7,117**	**$51,266**	**$62,952**
Total Realignment[1]	**$1,087,624**	**$1,472,827**	**$1,074,344**	**$3,634,795**

[1] Excludes $14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources. Includes $910.7 million General Fund deemed to be vehicle license fee revenue, per Chapter 322, Statutes of 1998.

(CMSP), and general growth accounts for allocation to counties.

For 2004-05, Realignment revenues are estimated to total $4 billion, which represents an increase of $174 million above 2003-04. The $4 billion total includes $2.5 billion in sales tax revenues and $1.5 billion in VLF. The VLF amount includes $988.3 million General Fund to backfill for lost VLF revenues. The $174 million in sales tax and VLF revenue growth will be distributed to the caseload, CMSP, and general growth accounts for allocation to counties (see Figures HHS-18 through HHS-20).

Special Session Legislation—The revenue estimates above assume that legislation is adopted to eliminate the VLF "poison pill" language. The Court of Appeal, Fourth Appellate District recently ruled that the state of California is required to reimburse the county of San Diego $3.5 million for costs incurred to fund the county's health care costs for the Medically Indigent Adults (MIA) Medical Treatment Program in the 1990-91 fiscal year (in 1991-92 this program was included in Realignment). Statute requires the VLF increase enacted as part of the 1991 State-Local Realignment be repealed if there is a State-reimbursable mandate finding for MIAs. As a result, counties could lose $1.5 billion in annual revenue for the realigned programs. The Administration has proposed Special Session legislation to eliminate the "poison pill" language in order to preserve critical Realignment funding for counties.

FIGURE HHS–19

Governor's Budget
1991-92 State-Local Realignment
2003-04 Estimated Revenues and Expenditures
(Dollars in Thousands)

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	$834,609	$410,081	$1,034,410	$2,279,100
Vehicle License Fee Account	253,015	1,062,746	39,934	1,355,695
Total Base	**$1,087,624**	**$1,472,827**	**$1,074,344**	**$3,634,795**
Growth Funding				
Sales Tax Growth Account:	—	—	$79,849	$79,849
Caseload Subaccount	—	—	(79,849)	(79,849)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	26,093	40,648	4,758	71,499
Total Growth	**$26,093**	**$40,648**	**$84,607**	**$151,348**
Total Realignment[1]	**$1,113,717**	**$1,513,475**	**$1,158,951**	**$3,786,143**

[1] Excludes $14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources. Includes $829.4 million General Fund deemed to be vehicle license fee revenue, per Chapter 322, Statutes of 1998.

FIGURE HHS–20

Governor's Budget
1991-92 State-Local Realignment
2004-05 Estimated Revenues and Expenditures
(Dollars in Thousands)

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	$834,609	$410,081	$1,114,259	$2,358,949
Vehicle License Fee Account	279,108	1,103,394	44,692	1,427,194
Total Base	**$1,113,717**	**$1,513,475**	**$1,158,951**	**$3,786,143**
Growth Funding				
Sales Tax Growth Account:	—	—	$134,205	$134,205
Caseload Subaccount	—	—	(134,205)	(134,205)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	14,541	22,651	2,651	39,843
Total Growth	**$14,541**	**$22,651**	**$136,856**	**$174,048**
Total Realignment[1]	**$1,128,258**	**$1,536,126**	**$1,295,807**	**$3,960,191**

[1] Excludes $14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources. Includes $988.3 million General Fund deemed to be vehicle license fee revenue, per Chapter 322, Statutes of 1998.